Austria Sch22	Indonesia Rp3100	Portugal Esc120
Bahrain Din0.650	Israel IS3.50	S.Arabia Rs7.00
Belgium BFr48	Italy L1700	Singapore S$4.10
Canada C$1.00	Japan Y600	Spain Pta145
Cyprus C£0.90	Jordan Fils500	Sri Lanka Rup30
Denmark DKr10.00	Kuwait Fils500	Sweden SKr9.00
Egypt E£2.25	Lebanon $L125.00	Switz SFr2.30
Finland Fmk7.00	Lux LFr48	Taiwan NT$65
France FFr6.50	Malaysia Rin4.25	Thailand Bht50
Germany DM2.30	Mexico Pes300	Tunisia Din0.800
Greece Dr120	Morocco Dh6.00	Turkey L600
Hong Kong HK$12	Neth Fl3.00	UAE Dh6.50
India Rup15	Norway Nkr10.00	USA $1.00

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Brussels: The EC's changing of the guard, Page 17

World News

Conciliation plan for New Caledonia negotiated

French Prime Minister Michel Rocard announced a plan for the Pacific territory of New Caledonia, negotiated and agreed with the leaders of the two opposed communities in the territory and seen as a success for his policy of national conciliation.

The plan would divide New Caledonia into three federated provinces. It will be submitted to a national referendum. Paris will govern the territory directly for the next 12 months. Page 2

Soviet planes hit

Fire and explosions destroyed eight Soviet SU-25 fighter aircraft at Kabul airport last week in the biggest single blow to Soviet air power of the Afghan war.

Iraq victory claim

Iraq claimed to have driven the last Iranian soldier from its southern territory after achieving its third big victory against Iran in two months. Page 2

Cairo silence

Egypt made no comment on reports that five people, including two Egyptian colonels, have been charged in the US with attempting to smuggle a carbon compound used for missiles out of the US on an Egyptian Air Force Hercules. Page 4

Kuwait-Egypt deal

Kuwait has signed a deal with Egypt to buy about 100 Egyptian-made armoured personnel carriers and an air defence system to boost its defences against possible Iranian attacks. Page 2

Gandhi reshuffles

Indian Prime Minister Rajiv Gandhi announced a Government shuffle in an attempt to recover political initiative after by-election setbacks a week ago. Page 2

Weinberger denial

Former US Defence Secretary Caspar Weinberger said on television that he does not deserve blame for possible violations of military procurement rules during his tenure.

Star wars cost curbed

A committee of negotiators for the US Senate and House of Representatives have agreed to curb the growth of funding for President Reagan's Strategic Defence Initiative. Page 2

HK deal on garrison

Year-long talks between Britain and Hong Kong on the funding of the 9,000-strong British garrison have resulted in a 10 per cent cut in the territory's share of the bill. Page 4

Los Angeles quake

An earthquake measuring 4.5 on the Richter scale shook eastern Los Angeles, knocking goods off shelves and smashing some windows; but no serious injuries were reported.

Gunmen free professor

Gunmen in Colombo who kidnapped Professor Ralph Buultjens, a Sri Lankan academic on holiday there from his post at New York University, later freed him unharmed.

Taiwan challenge

Taiwan progressives have begun agitating for the replacement of Premier Yu Kuo-hwa less than two weeks before the 13th congress of the ruling Nationalist Party. Page 4

PLO factions duel

Three Syrian soldiers were killed by a shell during fighting between rival Palestinian factions in Beirut. The two sons of a Palestinian leader died when his booby-trapped car exploded in south Lebanon.

Mont Blanc victim

A British mountain climber fell several hundred meters to his death on the north face of Mount Blanc, French mountain police said, after apparently getting lost in fog.

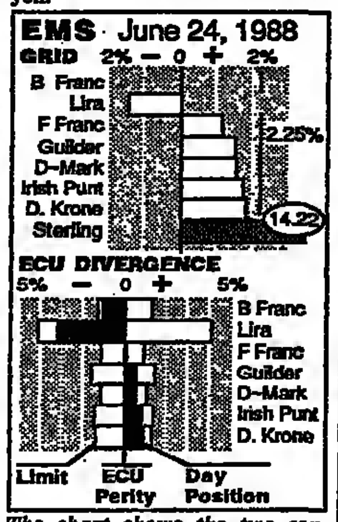
Business Summary

American Airlines and BA resolve dispute

BRITISH AIRWAYS and American Airlines reached an out-of-court settlement in a long-running dispute over access to rival computer reservation systems for airline tickets. Page 18

EUROPEAN Monetary System: West German interest rose as expected, but the D-Mark still finished at an eight-month low against the dollar. The Bundesbank intervened in currency markets although there was no support from other G7 banks. The D-Mark's performance elsewhere was equally unimpressive as investors preferred to take long positions in both the dollar and yen.

EMS June 24, 1988



The chart shows the two constraints on European Monetary System exchange rates. The upper grid, based on the weakest currency in the system, defines the cross-rates from which no currency (except the lira) may move by more than 2¼ per cent. The lower chart gives each currency's divergence from the "central rate" against the European Currency Unit (Ecu), itself derived from a basket of European currencies.

SPAIN: Efforts to merge the country's two biggest banks, Banco Central and Banco Espanol de Credito (Banesto), were given a boost after concessions by Alfonso Escamez, Banco Central's embattled chairman. Page 19

TOKYO: Share prices closed lower on profit taking on Saturday, with investors holding off due to uncertainties about the future direction of the dollar-yen rate. The Nikkei index fell 194.18 to 27,556.21 after rising 17.46 points on Friday. World stock markets, Page 31

YUGOSLAVIA: National bank of Yugoslavia will withdraw coins of less than 10 dinar denomination because of an inflation rate of 149 per cent, a Yugoslav news agency said.

JAPANESE companies may be the biggest winners from European Community's plans for a single market by 1992, said a British economic consulting firm. Page 3

SOUTH KOREAN electronics makers will temporarily stop shipping colour television sets and video cassette recorders to the European Community to prevent trade friction with the region, industry officials said.

US AND JAPAN said they had reached an agreement designed to open the Japanese market to a variety of American consumer goods. Page 4

LUXEMBOURG steel group Arbed, which last year made a loss of LFr2.2bn ($58.3m) on sales of LFr48bn, expects trading in the current year to result in a substantial recovery.

KRAFT, US food processing group, negotiating to acquire all or part of Parmalat, Italian food and dairy producer, examined a legal audit of the company in Milan.

BEAR STEARNS, Wall Street securities house, has acquired the equivalent of 5.7 per cent of Essex Chemical, New Jersey-based maker of sealants and adhesives

CONTINENTAL AIRLINES, one of two main operating subsidiaries of Texas Air, biggest US airline group, is to take a charge of $131m for underestimating ticketing liabilities. Page 19

Four die as Airbus A-320 crashes at French air show

FOUR PEOPLE were reported dead and 98 injured after an Air France Airbus A-320 crashed yesterday afternoon on a demonstration flight at an air show in eastern France, write Ian Davidson in Paris and Michael Donne in London.

Up to 30 people were unaccounted for last night amid confusion over how many had been on board. Airbus Industrie, the European consortium which makes the Airbus range, said there had been 136 passengers but police, who appealed to all on board to come forward, gave the total on board as 127. Police said the missing could include people trapped in the wreckage or some who fled from the crash after receiving slight injuries.

According to eye-witnesses, the aircraft was flying low over the airport of Mulhouse-Habsheim with its undercarriage down and ploughed into a wood at the edge of the runway. The aircraft, which then burst into flames, was reported to have 127 people, including the crew, on board.

A policeman said many lives were saved because trees cushioned tha impact. "The plane did not go into a nosedive," he said. "It belly-flopped on to the trees."

British Airways, which has two A320s in service, said it was suspending the two from service from midnight last night.

Air France replaced an Airbus 320 last tonight on a flight to Dusseldorf and Berlin but said it intended to use its two remaining models as usual today.

The aircraft on the demonstration flight had been delivered to Air France on Thursday. The A-320 is the most recent model in the Airbus range and represents a new generation of technology which the manufacturer claims makes it the most economic 150-seater airliner.

It is the first airliner to employ compnter-drivan "fly-by-wire" controls, as well as a lighter carbon-fibre fin and tail-plane. It also incorporates an advanced wing design and newly developed engines.

Mr Clande Guizard, the prefet of the Haut-Rhin deapartment, said the plane was not on a list approved to take part in the air-show. He said any planes that were to make "acrobatic manoeuvres" were supposed to have authorisation from the General Direction of Civil Aviation in the form of a navigability certificate.

Airbus Industrie said it was "taken aback and extremely sad" at the crash. It was the first passenger fatality in a total of 5m flight hours by the Airbus family, although last year five pilots of Egypt Air were killed on a demonstration flight.

So far six A-320 aircraft have been delivered: tbree to Air France, one to Air Inter, the French domestic airline, and two to British Airways. The firm-order book stands at 319, and the addition of options brings tbe total order book to 522. A further six are due for delivery by the end of the year, to Air France, Air Inter, British Airwaya and Ansett of Australia.

Two pilots were at the controls of yesterday's demonstration flight, according to the prefecture of the Haut-Rhin department. They escaped uninjured.

Airbus Industrie sent a team to investigate tbe canse of the crash. The investigators will undoubtedly consider the possibility that there was a failure of the fly-by-wire system, in which the moving control surfaces of the wings and tail are actuated by electronic impulses

Thatcher to resist new Kohl summit move for EC central bank plan

BY OUR FOREIGN AND POLITICAL STAFF

MRS MARGARET THATCHER will firmly restate Britain's opposition to the creation of a European central bank when she meets other EC leaders at the Hanover summit, which begins today.

The British Prime Minister is expected to come under renewed pressure to support proposals being put forward by Mr Helmut Kohl, the West German Chancellor, for gradual steps towards setting up a central bank.

But although she will repeat her view that the plan would only be possible within a European Community under one sovereign government, it is understood the British Government is not ruling out a high-level study of the issue.

At the Hanover gathering, Bonn will be pressing for a group led by EC central bankers to be set up to study possible paths towards a unified European currency and central bank. Assisted by outside experts, they would be asked to report back to EC governments in 12 months.

Mrs Thatcher's recent remarks on the issue, most recently in the Commons last week, leave no doubt that she views the establishment in the foreseeable future of a central bank charged with co-ordinating European financial policy as unrealistic.

But Downing Street, which believes EC leaders could more usefully consider more immediate, practical measures – such as greater use of the European currency basket and cross-holdings in foreign currencies – has not rejected the idea that the proposal could be examined at central bank governor level.

By arguing that any report should be left in the hands of central bankers, rather than politicians, Bonn aims to allay Mrs Thatcher's well-known misgivings about European monetary initiatives. The UK Government also wants to overcome domestic fears in West Germany about the possible inflationary consequences of over-rapid attempts to develop further the European Monetary System.

At the same time it hopes the compromise will go far enough to win support from countries like France which would prefer a further-going EC central bank commitment.

Mr Kohl himself is highly sceptical about the chances for any short-term move towards European monetary union. The Bonn government, however, wants to round off its successful six-month chairmanship of the EC by using the Hanover meeting to give new impetus to European political and economic integration.

West German Government officials are jubilant ahead of the

Continued on Page 18

Bonn looks back on EC presidency, Page 2; Background, Page 3; Editorial comment, Page 16

Gorbachev wins respite from Armenian strike

BY QUENTIN PEEL AND CHARLES HODGSON IN MOSCOW

MR MIKHAIL GORBACHEV, the Soviet leader, has gained an important temporary respite on the eve of his crucial Communist Party conference, with the news yesterday that Armenian protesters have called off a general strike in the disputed enclave of Nagorno-Karabakh.

As thousands of conference delegates converged on Moscow and top party officials were locked in key negotiations to decide the final conference agenda, the danger of a major nationalist clash to sour the atmosphere appeared to have receded.

Pravda, the party newspaper, reported that a mass meeting of demonstrators in Stepanakert, capital of the Armenian-populated region in the republic of Azerbaijan, had called off the month-long general strike, which left the civil authorities in the enclave out of control, food rationing in force, and vigilantes patrolling the streets.

A party official told Reuters that some factories had started working again yesterday but it would not be clear until today whether there would be a mass return by workers. They have hitherto insisted they would continue their protest until their demand for reunification with Armenia was considered in Moscow.

The danger of nationalist unrest and demands for greater autonomy from Moscow by other regions – mainly the Baltic republics – has been seen as a big threat to Mr Gorbachev's hope that the conference will give his reform programme a massive endorsement.

The Communist Party of Estonia is bringing a radical plan to the meeting calling for devolution of economic and political power to the republics, and on Saturday, 10,000 demonstrators in Lithuania saw off their party delegates with calls for greater independence.

Pravda also published yesterday an unprecedented correction to an earlier story about the Armenian demands, saying that it was not true the regional council of Nagorno-Karabakh had asked to secede from Azerbaijan without the repnblic's consent.

The Soviet authorities appear to have sided with the Azerbaijan authorities in insisting that any decision requires agreement by both republics on any change in the status of the enclave. The Armenian republic had argued that this could be decided by the Supreme Soviet in Moscow alone.

Mr Mikhail Vyshinsky, the Soviet Deputy Minister of Justice, told a press conference yesterday that the decision required "mutual consent" under Article 78 of the Soviet constitution.

The key decisions still to be taken by the party leadership before the conference are which specific resolutions, out of thousands submitted for consideration, will be put for discussion. The Central Committee secretariat must also decide which speakers to call, and the likely composition of the presidium in charge of the conference.

At this stage of preparation for any previous party congress or conference, all such issues would have been decided, and the proceedings would have simply taken the form of massive endorsement of the leadership's position.

On this occasion, however, many of the key issues are being left to the last minute.

Moscow 'policy errors,' Page 2

Dukakis: steering clear of specific commitments

Democrats avoid battle over defence and taxes

By Lionel Barber in Denver, Colorado

US DEMOCRATIC Party leaders have avoided a battle over defence and taxes and agreed an electoral platform which represents a victory for presidential candidate Governor Michael Dukakis of Massachusetts.

The Democrats' weekend platform committee meeting had been billed as much as a sign of the party's electoral intentions as a test of how the Dukakis camp would handle the Rev Jesse Jackson, Mr Jackson, the black civil rights leader from Chicago, who won 7m, largely black, votes in the primaries, ranks as an important party vote-winner in the November presidential elections.

Mr Dukakis largely succeeded in steering clear of specific commitments on domestic spending and foreign policy, thus allowing him to continue positioning himself as a moderate against Republican candidate Vice President George Bush.

Mr Jackson extracted a price for his co-operation this weekend. In Washington, he won some important party rule changes and forced the party in Denver to call South Africa a "terrorist state" and impose comprehensive sanctions, and to voice implicit criticism of British policy in Northern Ireland.

Other Democratic initiatives included a call for the US's allies in Europe and Japan to bear a "greater share" of defence spending and a commitment by a future Dukakis administration to "provide debt relief and to rekindle growth" in Latin America, Africa and Asia.

In contrast to Mr Walter Mondale's abortive campaign in 1984, Democrats approved an electoral platform free of the special interest planks that have condemned their party to losing four of the

Continued on Page 18

Southern Africa talks end with pledge to meet again

BY VICTOR MALLET IN CAIRO

THE FOUR-NATION talks on the future of Angola and Namibia ended in Egypt at the weekend with all sides expressing optimism about the negotiations and agreeing to meet again in the US next month.

For two days e joint delegation of Angolans and Cubans confronted South African officials in e secluded Cairo hotel. Mr Chester Crocker, the US Assistant Secretary of State for Africa, acted as mediator in the talks, which aim to achieve independence for Namibia in tandem with a withdrawal of more than 40,000 Cuban troops from Angola.

Angola has proposed a Cuban withdrawal over four years, while South Africa is understood to have insisted that it take place within a year.

"What has been accomplished here is to define the parameters of a settlement," said Mr Crocker in Cairo. "There has been a measure of agreement on how to proceed." But he added a cautionary note: "There remains e great deal of substantive work to do, work that has only been touched on here."

The first day of the talks was marked by heated and rhetorical exchanges between South Africa and the Cuban-Angolan contingent, involving every subject from the evils of apartheid to the inadequacies of Angola's health service compared to Sontb Africa's.

But by the end of the meeting the negotiators outlined e broad framework for further talks. The precise proposals suggested by either side are being kept secret, and military experts will discuss them further at another meeting in the US in the week beginning July 11.

The Soviet Union, ally of Cuba and Angola, hovered in the background. Mr Vladillen Vasev, head of the Southern Africa Department in the Soviet Foreign Ministry, visited Cairo and met American, Cnban and probebly Angolan officials for consultations.

Mr Jorge Risqnet Valdes, leader of the Cuban delegation, denied South African accusations that Mr Vasev was telling the Soviet Union's satellites what to do and had ordered them to try to reach a peace agreement.

"Mr Vasev has been here in Cairo to keep himself informed abont the course of these negotiations," said Mr Risquet, who had dinner with Mr Vasev on Saturday. "He is not the director of

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Banks in dispute with Bahrainis

BY A SPECIAL CORRESPONDENT

TWO INTERNATIONAL banks, Standard Chartered and the British Bank of the Middle East, are in dispute with the ruling Al-Khalifa family of Bahrain over unpaid debts to them.

The problem is understood to have come to a head with the recent withdrawal of an offer to the banks by the Al-Khalifa Family Council to repay the borrowings of its debtor members.

The two banks have been told in the past few days that proposals put forward a year ago are being cancelled. The proposals involved payment of 25 per cent of the money owed to them in cash, 50 per cent on a deferred basis, and forgiving of the last 25 per cent.

This offer was originally put to all the Al-Khalifa's onshore creditor banks in Bahrain, both domestic and foreign, and was reluctantly accepted by all bar Standard Chartered and British Bank of the Middle East. The current dispute does not affect the agreement with the other banks.

The two British banks, with the largest debts outstanding, wanted to discuss the matter further with the Family Council, and, as e result, it seems they are back in the position they were in 12 months ago.

Neither bank is prepared to comment on the impasse or on the sums involved. Bahraini borrowers have raised no syndicated or publicised loans except for certain industrial projects. However, it is understood that both banks still hope to negotiate a settlement with the Bahraini debtors.

Between 50m and 60m Bahraini dinars (abont $130m-150m) is believed to have been made available by the Knwaiti ruling family -traditionally on good terms with its Bahraini counterpart -to help settle debts owed by the Al-Khalifa family to banks and merchants. However, it seems these funds have been fully committed.

It is thought that Sheikh Isa bin Salman al-Khalifa, ruler of Bahrain, may be unaware of the Family Council's recent decision. He has already advised banks and traders to be cantious in lending to some members of his family.

There have also been payment defaults by some of Bahrain's merchants following the build-np of arrears by members of the ruling family.

Bankers say the debt problem is further undermining Bahrain's role as e financial centre. Several foreign banks that had offshore branches in the state have withdrawn and most other banks have scaled down branches to a point where they are little more than representative offices.

CONTENTS

New Caledonian factions agree conciliation plan

BY IAN DAVIDSON IN PARIS

MR MICHEL ROCARD, French Prime Minister, yesterday scored the first big success of his policy of national conciliation by announcing a framework plan for the troubled Pacific territory of New Caledonia.

The plan's main significance is that it was negotiated and agreed with the leaders of the two antagonistic communities in the territory, the pro-French Europeans or Caldoches, and the independence-seeking Melanesians or Kanaques.

The most immediate consequence of the new plan, coming six weeks after Mr Rocard took office, will be the effective cancellation of the previous, right-wing government's local government arrangements of last autumn and their displacement by a new administrative system.

The system is expected to include the division of New Caledonia into three federated provinces (the south, the north and the small Loyalty Islands), though the prime minister's office has published no details. The plan will be submitted to a national referendum. Meanwhile, Paris will govern the territory directly for the next 12 months.

The choice between independence and adherence to France has been postponed for 10 years, when a decisive vote will be held in the territory.

Hostility between its two communities reached a climax in the run-up to the recent French presidential election, when a gang of Melanesian separatists captured a group of French gendarmes and kept them hostage on the island of Ouvea. Two days before the decisive round of voting on May 8, Mr Jacques Chirac's government ordered a military operation to release the hostages. This assault led to the deaths of 19 Melanesians and two French soldiers.

The new pact symbolises the efforts of President François Mitterrand and Mr Rocard to enlarge the basis of consensus in French politics. The negotiations were conducted by Mr Rocard in liaison with Mr Raymond Barre, former conservative prime minister and a presidential candidate last month.

Mr Rocard's most important achievement in this agreement is that he appears to have persuaded the leaders of the two communities that neither could secure outright victory. The Europeans and the Melanesians constitute large minorities in a population of 150,000 which includes Polynesians and others.

A RECORD number of appeals against results in the French general election this month has been lodged with the Constitutional Council, well over half of them in constituencies won by the traditional conservative parties.

Of 87 appeals in all, 23 are against elected deputies of the Socialist Party, 12 against Communists and the rest against members of the centre-right UDF umbrella group or the neo-Gaullist RPR party.

If enough appeals were upheld by the Council, the balance of power in the National Assembly, where the Socialist Party is 13 seats short of an overall majority, could be affected.

One of the most prominent deputies challenged is Mr Georges Marchais, Communist Party secretary-general. Electoral fraud in his constituency has been alleged.

INDIAN PM SEEKS TO RECOVER POLITICAL INITIATIVE

Gandhi shuffles Cabinet after setbacks

Rao: Taking over as External Affairs Minister

BY JOHN ELLIOTT IN NEW DELHI

MR RAJIV GANDHI, Indian Prime Minister, announced a big government shuffle on Saturday in an attempt to recover political initiative after by-election setbacks a week ago, which revealed weaknesses in his Congress-I Party in main states.

The changes were widely criticised by political observers yesterday and Mr Vishwanath Pratap Singh, former senior minister in Mr Gandhi's government who has become a prominent opposition leader, said the Cabinet was a "gathering of incompetent people". Mr Singh won a key Uttar Pradesh by-election victory last weekend.

The most important move was the appointment of Mr Narayan Dutt Tiwari, 61, Finance Minister since last July, as chief minister of Uttar Pradesh, where he held that job in 1984. The Congress-I urgently needs reorganisation in the state before the next general election, due by the end of next year.

The new Finance Minister is Mr S.B. Chavan, a former Home Minister and Planning Minister, who was shifted from the chief ministership of Maharashtra where he was not a success.

Mr Gandhi has given up his role as External Affairs Minister and has appointed to that post Mr Narasimha Rao, who held the job between 1980 and 1984 and was recently minister for human resource development. Mr Gandhi said he intended to spend more time on political affairs.

The reshuffle is about the 12th by Mr Gandhi since his landslide general election victory at the end of 1984, and it represents his 24th round of ministerial appointments. The breadth of the reshuffle – with 10 changes in the 20-person Cabinet, including six of the top eight jobs – demonstrates the Prime Minister's ability to wield considerable personal power within the party.

It also shows he lacks enough power to drop people altogether and introduce new young talent. Further, it demonstrates his inability to design an impressive Cabinet and leave it unchanged for a significant period.

The new Cabinet is being widely criticised for containing too many old faces who were shelved in earlier years, and for including six men who have failed, as chief ministers of states, to control political infighting and establish stable governments.

Mr Dinesh Singh, a senior Cabinet minister until the early 1970s, who was brought back as Water Resources Minister in February, has been made Commerce Minister. Mr Madhavsinh Solanki, former Gujarat chief minister, is the new Planning Minister, and Mr V. Birabdur Singh, ex-chief minister of Maharashtra, is Communications Minister.

Moscow admits policy errors

By Quentin Peel in Moscow

BIG MISTAKES in Soviet foreign policy during the "period of stagnation" before Mr Mikhail Gorbachev came to power contributed to the arms race with the West, Marshal Sergei Akhromeyev, chief of the Soviet armed forces general staff, admitted at the weekend.

The Brezhnev regime – in which Mr Andrei Gromyko, now head of State, was foreign minister – failed to take the initiative in negotiations and was often blinded by its own propaganda, senior Soviet officials said.

They also hinted at a radical reassessment of the Soviet invasion of Czechoslovakia in 1968, without admitting that it was wrong. They suggested it could never happen again.

The self-criticism by some of Mr Gorbachev's most senior foreign affairs and defence advisers was spelt out in a briefing on the debate to come this week at the extraordinary conference in Moscow of the Soviet Communist Party. They urged that foreign policy should be more openly discussed and many more alternative strategies considered.

Marshal Akhromeyev, the most powerful military man in the Soviet Government and Mr Gorbachev's chief arms control adviser, said the former Government had reacted far too directly to the huge increase in US military spending under President Ronald Reagan.

"We had to show more initiative in finding political solutions. We should have been more insistent in enlisting the support of public opinion, demonstrating the danger of the arms race," he said.

Mr Yuli Vorontsov, First Deputy Foreign Minister, blamed the former Government for being "carried away by polemics, scoring propaganda points, very often getting in the way of real work."

However, he refused to identify Mr Gromyko as having been primarily responsible for such faults. "Mistakes, shortcomings, drawbacks in our foreign policy certainly were related to people, and to the overall spirit that reigned supreme. All of us who worked in the Foreign Ministry at the time were to blame."

Asked whether the invasion of Czechoslovakia had been a mistake, Marshal Akhromeyev said: "Relations between the Soviet Union and other socialist countries are experiencing a period of quite radical perestroika [restructuring]. They are cleared of deformations alien to the character of such relations."

Professor Oleg Bogomolov, top Soviet adviser on relations with other Comecon states, said steps taken under the "Brezhnev doctrine" of limited sovereignty of the eastern European states "are becoming unthinkable in the future."

Even so, outright condemnation of the invasion of Czechoslovakia appears still to be impossible in Moscow, mainly because the Czechoslovakian leaders installed then remain in power.

Iranians 'driven out of southern Iraq'

BY ANDREW GOWERS, MIDDLE EAST EDITOR

IRAQ CLAIMED yesterday to have driven the last Iranian soldier from its southern territory, having achieved what appears to have been its third significant victory against Iran in just over two months.

A triumphant military communiqué from Baghdad said Iraqi forces had captured Iranian positions in marshes east of the port of Basra and destroyed the last Iranian military presence inside Iraqi borders in the region.

The announcement followed Iraq's reported recapture of the oil-rich marsh area around Majnoon island after a fierce eight-hour battle on Saturday.

Iran, which had held the area since 1984, admitted that its troops had been redeployed in "new defensive positions" because of Iraqi chemical attacks. Tehran repeated the claim yesterday, accusing the Iraqis of killing 60 Iranians and injuring about 4,000 with chemical weapons near the western Iranian city of Ahwaz.

The weekend events are further evidence of Iraq's new confidence and amount to another serious setback for the Iranian war effort, which is still reeling from Iraq's seizure of its Fao peninsula on April 17 and its recapture of the south-eastern border town of Shalamcheh on May 25. In each case, Iranian resistance has collapsed in the face of a surprisingly well co-ordinated assault by the Iraqi army and its elite Presidential Guard.

Majnoon, in the Howeizah marshes about 270 miles south-east of Baghdad, is significant because of its oil – it contains eight capped Iraqi wells and is believed to be above one of the richest fields in the Middle East – and because of its location close to the strategic road between Basra and Baghdad.

The only significant slice of Iraqi territory still in Iranian hands is in the mountainous Kurdish region in the north. Even there, the Iraqis have reported a significant counter-offensive in the last two weeks.

The latest fighting will also increase the pressure on Mr Ali Akbar Hashemi Rafsanjani to show rapid results in his new post as Iran's acting commander-in-chief. He has said he will need several months to reorganise.

Western observers believe the setbacks, which have deprived the Iranian leaders of a series of important territorial bargaining chips for eventual negotiations to end the war, will make Iranian political concessions more difficult.

Congress bid to curb SDI funds

By Stewart Fleming, US Editor, in Washington

A CONFERENCE committee of negotiators for the US Senate and the House of Representatives is reported to have agreed to curb the growth of funding for President Reagan's Strategic Defence Initiative.

The committee has decided to instruct the administration that more of the SDI budget than the Defence Department had proposed should be spent on long-term research, rather than on space-based defensive weapons for early deployment, the Washington Post reported yesterday.

The decision underlines growing disenchantment with the huge funding of the SDI programme, on which Mr Reagan has been insisting, and suggests that, even if Vice-President George Bush becomes president next year, SDI will be a lower military priority.

Governor Michael Dukakis, who will be Democratic candidate for the presidency, has already indicated he will look for cuts in SDI expenditure, if elected.

The restraint on the SDI budget tends to support the contention of those who argue that the programme is not as big an obstacle to a strategic arms reduction agreement between Moscow and Washington as other issues.

According to the report, the House-Senate conference committee ironing out differences between the two versions of the Department budget, has agreed to hold SDI funding for the 1989 fiscal year to \$3.73bn (£2.07bn) – a rise of only 3 per cent compared with 1988 and less than the \$4.5bn the Pentagon was seeking.

Since Mr Reagan launched the programme, spending has soared from \$1bn to \$3.6bn.

The spending restraint is as significant as the decision by Congress to start setting its priorities for what sort of research should be done.

This represents a setback for conservative Republicans who have been pressing for early deployment of a first stage of SDI, something which now seems out of the question.

Cárdenas calls for Mexican army support

BY DAVID GARDNER IN MEXICO CITY

MEXICO'S Institutional Revolutionary Party (PRI) regime will pay the price for having "turned the country into a private business", at presidential elections on July 6, according to Mr Cuauhtémoc Cárdenas, its main opponent.

Mr Cárdenas told a rapturous crowd of around 250,000 in Mexico City's Zócalo, or main square, that July's contest "will end for us when the legal results are recognised. Not before".

He called on his supporters to prevent what he claimed were government plans to rig the election, and, in what will be regarded by the regime as an inflammatory appeal to the army, said: "The armed forces cannot obey orders which imply confrontation with the people, which is firmly but peacefully defending the constitutional order."

"The people are confident," the left-wing nationalist leader went on, "that the army will be the main guarantor of legality against those who are planning provocations to back up [electoral] fraud and imposition."

The Cárdenas rally is being described by independents and opposition analysts as the largest concentration of opposition forces in modern Mexican history. The PRI candidate in the elections, former Planning Minister Mr Carlos Salinas de Gortari, will have difficulty in matching it next Saturday, the last day of campaigning.

Mr Cárdenas's Zócalo, the site of the National Palace and seat of government, rang with slogans culled from President Allende's overthrown Popular Unity coalition in Chile, and frothed with red and Mexican flags, borne by the multi-party coalition of the Left he has forged into a mass movement since breaking with the PRI last year.

The 53-year old opposition leader, son of the revered 1930s President Gen Lázaro Cárdenas, went further than ever before in his critique of Mr Salinas's proposals to modernise Mexico, describing them as "no more than a face-lifted version of fascism".

They "propose, with modern clothing, the old corporatism, but now rid of any popular content", and were breaking up the nation "into islands of economic dynamism in a sea of poverty".

The task now was to guarantee a clean outcome to the elections, in favour of whoever really wins, Mr Cárdenas said.

He warned that his coalition would use "all the resources of the law", and in the event of government attempts to use illegal methods to swing the result in its favour, "we will use those same methods and many more besides to defend the popular vote".

He also called for mass rallies in all 300 electoral districts after the elections. PRI officials say privately that the ruling party will also try to occupy the country's main squares after July 6, to prevent the opposition from doing so.

Pakistan unveils new taxes in 1989 budget

BY MOHAMAD AFTAB IN ISLAMABAD

MR MAHBUBUL Haq, Pakistan's Finance Minister, yesterday announced new taxes in a budget for 1989, designed to tackle growing spending on administration and development.

The tax changes amount to Rs3.23bn (£411.5m).

These include new or enhanced excise duties on industrial production, sales tax, customs duties and income and wealth taxes.

Income exceeding Rs200,000 will be taxed 10 per cent higher than at present.

Sales tax is to be levied on eight new items, including cement and steel, and value added tax is to be introduced.

Excise tax on cotton yarn has been doubled, and increased on cigarettes and beverages.

Expenditure for fiscal 1989 is Rs189.38bn, up 8.7 per cent from 1988. Of this, Rs57.14bn will be spent on development projects.

Income, inclusive of aid worth Rs32bn, is expected to total Rs182.69bn and leave a deficit of Rs6.7bn between expenditure and revenue which the new taxes are expected to cover.

Defence expenditure was raised 6.6 per cent to Rs48.31bn, the single largest item of expenditure.

Mr Haq announced tax concessions to foreign and Pakistani investors, to speed industrialisation.

Most new industry will be exempt from income tax for four years. Privately-owned investment banks will be allowed to open.

Kuwait buys air defence system from Egypt

KUWAIT has signed an arms deal with Egypt to boost its defences against possible Iranian attacks and sent a signal of thanks for Egyptian political support, diplomatic sources said on Sunday, Reuter reports from Kuwait.

They said Kuwaiti Defence Minister Sheikh Nawaf al-Ahmed al-Sabah signed a contract in Kuwait on Saturday to buy about 100 Egyptian-made armoured personnel carriers (APCs) and an integrated air defence system.

The system, called the Amoun, is intended to help stop Iranian missiles such as the ones that hit Kuwaiti oil installations last year in retaliation for Kuwait's support for Iraq.

The sources declined to give the value of the deal, but said it was not large. It is still Egypt's biggest sale yet to an Arab Gulf state other than Iraq and gives it a foothold in one of the world's most lucrative arms markets.

The Egyptians say it complements Kuwait's existing air defences, which consist of Soviet-made SAM-7 and U.S.-made Hawk missiles, the sources said.

● Kuwait unveiled a 3.194bn dinar (£1.56bn) budget for fiscal 1988, which includes a record projected deficit of 1.35bn dinars, AP-DJ reports from Manama.

The budget anticipates total revenue of 2.05bn dinars during the fiscal year starting July 1, and total spending under the budget is up 1.1 per cent from the 1986 estimate of 3.16bn dinars.

Oil revenues are projected at 1.18bn dinars, down 548m dinars, or 31.7 per cent, from revenues of 1.73bn dinars under the fiscal 1987 budget.

Rabin faces US concern over hard line on unrest

MR YITZHAK RABIN, Israeli Defence Minister, will face tough questions in Washington this week from US leaders who have condemned his policy towards Palestinian unrest on the West Bank and in the Gaza Strip, Reuter reports from Tel Aviv.

Mr Rabin, due in Washington yesterday from New York, was expected to meet President Ronald Reagan, Vice-President George Bush, Mr George Shultz, Secretary of State, Mr Frank Carlucci, Defence Secretary, and members of Congress.

The Palestinian unrest and Middle East peace efforts are likely to dominate the talks.

The 66-year-old former soldier angered Israelis and Americans when he last visited Washington, in December, to sign a strategic co-operation agreement. The Palestinian populations were erupting as he began the visit. Americans, outraged by film of soldiers firing into crowds of stone-throwing Palestinians, accused Mr Rabin's army of excessive force.

More than 220 Palestinians and four Israelis have died in the recent unrest against Israel's 21-year rule of the territories.

West Africans agree to act on toxic dumping

WEST African governments pledged at the weekend to take legal steps to stop nuclear and toxic waste being dumped in the region, Reuter reports from Lome.

Leaders of the 16-member Economic Community of West African States (ECOWAS) agreed to make it a criminal offence to facilitate dumping.

They also urged developed countries to tighten controls on exporters of hazardous waste who are forced by tough environmental legislation at home to seek dumping grounds abroad.

"We condemn in no uncertain terms all acts or attempts at dumping," the resolution said.

Dumps were found in Nigeria and Guinea this month but several other countries were offered inducements by private exporters.

No nuclear waste has been found in West Africa although Nigeria alleges that some waste was radioactive.

The community agreed to set up a monitoring system called "Dumpwatch".

SHIPPING REPORT

Tanker rates soften

BY KEVIN BROWN, TRANSPORT CORRESPONDENT

THE OVERALL level of rates in the tanker market softened last week, although there was demand for ultra-large and very large crude carriers in the Gulf towards the end of the week.

Gibson, the London shipbroker, said the increase in rates for VLCCs was "significant" and likely to continue because of the shortage of available tonnage.

However, there was limited demand for smaller ships.

Only one inquiry was reported for ships of the in-barrel class, and there was insufficient demand for vessels of the 70,000-80,000 tonnes range to absorb all the available tonnage.

In the products market, the Far East was said to be dull, and many smaller vessels were queueing in the Gulf for business.

WORLD ECONOMIC INDICATORS

FOREIGN EXCHANGE RESERVES (US\$m)

	Apr.'88	Mar.'88	Feb.'88	Apr.'87
US	11,275	11,579	11,795	14,891
UK	38,364	38,380	36,125	20,903
W. Germany	68,160	67,211	67,663	59,949
Japan	80,366	78,905	78,261	62,934
Belgium	7,797	7,913	8,180	5,968
Netherlands	13,626	13,696	13,458	11,428
France	27,770	28,052	28,004	30,429
Italy	25,507	27,490	28,455	23,900

Source: IMF

Canada accuses Moscow of 'Cold War' tactics

CANADA has accused the Soviet Union of returning to Cold War behaviour in the deepening espionage battle between the two countries after Moscow raised the stakes in the latest round of diplomatic expulsions, Reuter reports from Ottawa.

Ottawa reacted angrily on Saturday when Moscow expelled another Canadian diplomat, barred seven others from returning, and withdrew 25 Soviet staff from the Canadian embassy.

Government officials said high-level meetings were under way to decide the Canadian response.

A spokesman for Mr Joe Clark, External Affairs Minister, rejected allegations by Soviet officials in Moscow that Canada was resurrecting Cold War attitudes in East-West relations by levelling espionage charges.

A Soviet embassy official in Ottawa warned that Moscow was prepared to retaliate again if Canada placed more restrictions on Soviet personnel.

W Germany looks back in satisfaction on its EC presidency

Kohl's gamble in promoting the single European market has paid off, reports Will Dawkins

MR HELMUT KOHL, the West German Chancellor, has every reason to he in an optimistic mood today when he welcomes his fellow European Community leaders to Hanover for their first summit in recent years not overshadowed by a budget crisis.

A great deal of mutual back-slapping should be in order over the unprecedented progress made under Bonn's term as EC President in the past six months in the drive to create a free single market by 1992. Mr Kohl took a gamble when he made the internal market a presidential priority on taking the chair in January, not least because West Germany itself had difficulties with some of the proposals in the European Commission's 285-point internal market plan.

In the event, the risk paid off handsomely. Mr Kohl can hand over the chair to Greece next month with the knowledge that the single market has come, according to Mr Jacques Delors, Commission President, "almost to the point of no return".

Bonn has used its diplomatic clout in the form of personal arm-twisting by Mr Kohl and by Mr Martin Bangemann, his Economics Minister in charge of internal market council sessions, to cajole member states into agreeing on a record – in importance – 23 trade-barrier-breaking plans and signal outline approval for another 14, many of which were passed in the hectic past fortnight alone. That brings to just under 100 the number of internal trade barriers scheduled for demolition out of the Commission's programme.

Over the next four and a half years to the end of 1992, they must tackle another 107 now on the table, and the 87 the Commission has yet to publish to complete the project.

But the past six months have not just been remarkable for the sheer number of decisions taken. They include some of the most far-ranging proposals in the programme.

The hig prize must be the accord to end all exchange controls, a move which will allow people to bold bank eccounts and borrow in any EC country and has big implications for Commission tax harmonisation and currency plans. Then there is the liberalisation of non-lifa insurance, a proposal allowing companies to cover big commercial risks across the EC, though most of the political bargaining needed for agreement on that took place under the previous Danish presidency.

Also notable has been the unblocking of several measures beld up by long wrangles over national interests. Those include an end to bilateral quotas for cross-border truck journeys, where Bonn swallowed its own national opposition to exposing its highly-regulated hanlage trade to cheap competition, ironically noted by several officials as a truly presidential sacrifice.

Another big score is the accord on educational diplomas, which will allow professionals, from lawyers through accountants, to tree surgeons to practise freely across the EC subject to basic probationary periods or tests, and which had posed problems for almost every member state.

Smaller, but still important, accords cover common pricing systems for pharmaceuticals, EC requirements for construction materials, tractors and toys, and common health standards for frozen food. Outside the formal 1992 programme, there is the accord to scrap the entire system of steel output qnotas, a national carve-up of production that buyers of steel had condemned as the costliest trade barrier in the book.

Why has the logjam broken so fast? Officials point first to the muscle exerted hy a big member state in the chair, last seen on this scale when British presidency forced through 47 internal market decisions naarly two years ago. One official puts it more cynically. Ministers have been eager to agree as much as they can now because they fear that progress like this cannot be guaranteed under the presidencies of Greece and Spain – relative newcomers to the Community who cannot be expected to operate the bureaucratic controls as deftly as Bonn.

Helmut Kohl: effective use of West German muscle

More important, the general optimism in the wake of February's landmark agreement on EC budget reform has encouraged member states to be more flexihle, especially southern ones, who as a result of the budget deal get a near-doubling in regional aid to help them tackle the extra competition expected to result from the single market. "There is an increasing realisation that little bits of local difficulty can no longer hold up the process," says one northern diplomat.

Underneath the glow in Hanover, however, some hard talking on internal market decisions lies ahead. Brussels is still holding fast to its controversial proposals to reduce disparities in VAT rates, seen by several member states as an unwelcome attack ou fiscal sovereignty.

Mr Delors meanwhile has worried employers by refloating ideas for boosting worker participation, a scheme which the socialist Greeks are expected to push hard. He is also keen on opening up public procurement, where the Commission recently adopted plans to extend free bidding rules to transport, water, telecommunications and energy, all sensitive and fiendishly complex sectors.

Most crucially, the EC has not yet hammered out a clear idea of what kind of external trade policy should accompany a free Community market. So far, the Commission has resisted pressure for tough trade controls, though only up to a point. Brussels is insisting that some directives – like its proposals for a single EC banking licence – should only apply to foreign companies if their Community competitors get equal benefits abroad.

As Mr Delors warned last week: "The external aspect of the internal market will have to be strengthened if we don't want the internal market of be of primary benefit to foreign investors." Just what kind of strengthening that means will provoka hard bargaining between those for protection, like France, and those for a more open market, like the UK, which does not want to suffer in trade rows provoked by other EC partners.

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Brussels tries again to take public procurement tendering across borders

BY DAVID BUCHAN AND TERRY DODSWORTH

NOTHING annoys EC governments more than Brussels telling them how they can, or cannot, spend their own money. Disapproval of state aid rates as perheps the European Commission's most unpopular activity; its moves to introduce competition into national public procurement come a close second.

Last week the Commission produced proposals to extend cross-border competitive tendering into four key sectors – water, energy, transport and telecommunications – where state ownership and/or influence is massive.

The move was no surprise. Public procurement last year amounted to 15 per cent of Community gross domestic product, or some Ecu 550bn (£370bn). The inefficiencies in industries dependent on public contracts can be gauged by the paradoxical fact that capacity utilisation is often very low (20 per cent in boilermaking), even though imports account for only 1-4 per cent of public contracts compared to 20-40 per cent in the European economy as a whole.

A start was made in the 1970s when the Commission persuaded governments to adopt rules requiring the advertising of public works and supply contracts over a certain value in the EC Official Journal, so that potential suppliers from other EC member states could have a chance of tendering. It also required that such foreign hids were not discriminated against. It was a bit of a false start, like much of the 1970s internal market programme. The rules were widely flonted, and only now are the relevant directives being tightened up.

But the water, energy, transport and telecommunications sectors were deliberately excluded. The stated reason was that they presented too varied a mix of public and private ownership and control among EC memher states. But Commission officials also say that governments wanted to keep "buy national" policies going to sustain local industry.

Now, the Commission has hit on a new formula to reach the parts of the public markets that the other directives could not reach. The draft directive does not draw a dividing line between public and private. The new key is as much state influence as state ownership. The competitive tendering rules would apply to any purchasing organisation, "which because of the existence of exclusive networks or concessionary rights under public control, are unlikely to be able to resist political pressure to huy 'national' for its own sake."

Under the proposed new rules, the formerly excluded industries would be brought into the system of contract advertising in the Official Journal in Brussels. Any supply contract worth more than Ecu 200,000 and works contract worth more than Ecu 5m would be covered by these regulations – which are bound to cause anxiety around the Community.

One worry is the cost and time involved in advertising in the EC official journal and considering responses from all over the EC. Another issue is the position of privatised husinesses – most of them, so far, in the UK. British Telecom, though privatised, would, like its competitor Mercury, be covered by the naw rules, because it provides public telecommunications services under government licence.

In forthcoming Council of Ministers negotiations on the Commission proposal, one UK official says, "we will have to consider what burdens should be placed on private companies like BT for the benefit of opening up the supply market for the Bundespost" (the state-owned West German telecommunications monopoly). BT itself seems relatively relaxed, even though it buys about 90 per cent of its products in the UK. "Wa already operate in the spirit of this directive and advertise 10 per cent of our purchases voluntarily in the EC journal," the company says.

> After a false start in the 1970s, the Commission proposes to extend cross-border competition for public works to four key sectors

By contrast, airlines would escape EC regulation of their purchasing, even though all EC carriers except for British Airways are partly or wholly state-owned. This is because because their procurement is genuinely international. The same would go for petroleum refining and retailing, thongh not exploration and extraction.

1992 THE EUROPEAN MARKET

Given the complex nature of sectors like the electricity industry, with obligations to huy high quality equipment that can provide uninterrupted service, the Commission proposes greater flexibility in the rules. Organisations in the hitherto "excluded" sectors could chose to advertise for each contract; or advertise periodically (at the start of their budget year, say); or draw from a "pool" of qualified suppliers, provided it is opeo to newcomers.

The effects of the proposed procedures will differ from industry to industry. Five examples:

● In the water industry, the Commission admits that thare will be relatively little impact. Water utilities are likely to continue buying very largely (95 per cent) from national suppliers, though in certain sophisticated equipment there is potential for intra-Community trade.

● In power equipment, by contrast, greater intra-Community trade might accelerate rationalisation of an over-crowded European sector. Tha process of restructuring has already started, with the recent merger of Asea of Sweden and Brown Boveri of Switzerland (neither of them based in the EC) to form ABB. Inside the Community, among the dominant companies of KWU-Siemens, GEC, Alsthom, Framatome, Deutsche Babcock, Ansaldo, NEI and Babcock International, "restructuring across national boundaries is likely" according to the Commission's internal background papers.

● Telecommunications is characterised by strong vertically-integrated national industries, with 70 to 90 per cent of contracts going to national producers. Procurement policy is not the only cause of this state of affairs; another important factor has been the fragmentation of telecommunications standards. In opening up telecommunications procurement, therefore, ETSI, the newly independent European standards-setting body, will be in many ways as important as the new EC proposals.

● The supply of installations and work to North Sea oil exploration and production is an area which the Commission says it will be watching closely. The UK share of contracts in this sector rose from 25 per cent in 1973 to 87 per cent last year. The rise is acknowledged to be partly due to increased UK proficiency and to a fall-off in foreign interest. None the less, the Commission's suspicions are directed at the British Government's Offshore Snpply Office which requires applicants for UK orders to detail the British share of their anticipated expenditure, and is entitled to alter an applicant's list of sub-suppliers.

In response, the UK Department of Energy argues that the EC's plans might "interfere with commercial processes, add to costs and cause cancellation of certain projects." The Offshore Office, it says, cannot exercise sanctions against oil companies operating in the North Sea, and the system only began because US oil companies in the early 1970s were not even considering the UK for the "supply of hammers and nails."

● In the railway equipment industry, there is clear potential for a shake-out. Partly because of low demand – 84 locomotives were purchased in the EC last year, compared to 500 in the US – hut also because of cartelised national markets, exports within the EC rnn at only 20-30 per cent of exports to the rest of the world.

If all these markets could be opened to more competition, tha Commission sees sizeahle savings. Purchasers would gain from buying from the cheapest. Stronger competition would pnt downward pressure on prices. And to the extent that restructuring resulted in mergers, there would be economies of scale from longer production runs.

But to realise the full gains, the Community would have to guard against substituting external for internal protectionism. There is a tricky problem of balance here. On the one hand, there is a strong argument for giving the Community's puhlic procurers free rein to go to externally-based companies like ABB in the interests of competition. Yet equally, the Community companies will want access to the markets in which these external companies are based.

The EC is proposing to tackle this by negotiating reciprocal liberalisation with third countries. This could mean that external companies might be pushed aside in Community markets unless their governments make matching concessions on procurement.

Key industries affected by public procurement policies

	Community market (Ecu)	Current capacity utilisation	Intra-EC trade (per cent)	Number of EC producers	Number of US producers	Economies of scale (per cent)[1]
Boilermaking	2bn	20	very little	12	6	20
Turbine generators	2bn	60	very little	10	2	12
Locomotives	100m	50-60	very little	16	2	20
Mainframe computers	10bn	80	30-100[2]	5	9	5
Telephone exchanges	7bn	70	15-45[2]	11	4	20
Telephone handsets	5bn	90	very little	12	17	–

[1] Unit cost reduction resulting from a doubling of output
[2] Percentage of total demand
Source: EC Commission

Today's EC meeting should run more smoothly than previous ones, says **David Buchan**

Summit will ponder European central bank

EUROPEAN heads of government gather today in Hanover for a summit whose most intriguing, and contentious, element will be debate on whether to initiate study into a possible future common central bank.

Bnt, that lssne aside, the course of the Hanover summit is likely to run smoother than the three previous EC summits, which all focused on the Community's budgetary crisis.

EC leaders will he happily aware that they can indulge in two days of wide-ranging discussion of future Community strategy, having seen budget reforms and many key internal market measures put on the Community statute book under West Germany's successful council presidency, which also ends this week.

But the West German presidency will be put to a final test over the monetary issua. The past year has seen growing calls from several member states for closer EC monetary co-operation to complement the new agreement to start freeing capital movements in two years. The suggestion, now on the table in Hanover, of a study into possible creation of a European central bank emerged essentially out of a dialogue between France and Germany, the same two countries which were behind the 1978 creation of the European Monetary System (EMS).

There are, however, many divisions about even the desirability of raising the issue of a central bank. No decision actually to create one is remotely on the cards this week. But last week Britain's Prime Minister Mrs Margaret Thatcher said she saw no point in even studying the idea, since it would imply a European government which was not conceivable in anybody's lifetime.

But UK officials say they do not expect discussion on the issue to be acrimonious. Britain could subscribe to calls for more monetary co-operation that took the form of promoting greater use of the Ecu (European Currency Unit) and of reqniring more even-handed ohligations inside the EMS, without of course Britain committing sterling to it.

The other main item at Hanover will be the EC internal market programme, on which Mr Jacqoes Delors, the Commission President (who is now sure to be re-nominated in his post at the summit), wants to put a more "social" accent. Mr Delors said last week he wants Hanover to "send a political signal" to Europe's workers and trades unions that the internal market programme will now be geared as much to promoting their welfare as to de-regulation for the benefit of business.

Completing the dossier of internal EC business will be a Commission review of the state of the European economy (and particularly the "black" economy), and a discussion led by Mr Kohl on the futnre difficulties of fighting menaces like drug trafficking and terrorism in a Europe without internal frontiers.

In addition, EC heads of government and their foreign ministers are expected to review East-West relations, a particular pre-occupation of Bonn.

'Japan may make biggest gains from single market'

BY GUY DE JONQUIERES, INTERNATIONAL BUSINESS EDITOR

JAPANESE companies may be the biggest winners from the European Community's plans to create a single market by 1992, according to a study* by the Henley Centre, an indepeodent British economic consulting firm.

As well as taking a cautious attitude towards prospects for adoption of some key elements of the single market plan, the study takes issue with some of the arguments advanced for it by the European Commission.

The study says external economic factors, particularly the US dollar, a narrowing of the difference between American and European growth rates, and US protectionism are likely to be as important as the 1992 proposals in making the European market more competitive.

Enropean competition was likely to increase regardless of the 1992 programme. Exporters were already shifting their focus from the US to Western Europe, the coming "battleground for the world's exports".

Even if Japanese manufacturers' competitiveness against European industry were weakened by a further rise in the yen, they had ample scope to compensate hy cutting profit margins, as they had already done for the US.

Japanese companies had excelled in fast-growing high-technology sectors, which were highly fragmented by intra-EC trade barriers and hence likely to be changed most hy a single markat. "Consequently, there is a real danger that it will be Japanese companies who have most to gain from completing the internal market," the study says.

The ability of European industry to fight back would depend critically on the reactions of individual companies and, above all, on heavier spending on research and development.

The study also concludes that:

● Price differentials may persist even after formal EC trade barriers are removed, and companies may be from new markets hy industry structures, high entry costs and other factors.

● Differing European standards and regulations are less important barriers to trade than businesses believe.

● The UK is alone in the EC in insisting that mergers be judged largely on competition grounds and is therefore likely to be the prime target for takeovers by foreign hidders.

The sectors most likely to benefit from a single EC market are airlines, advertising, consumer medicines, food and drink, leisure and road transport, according to a study by London stockbrokers UBS-Phillips & Drew.

The main losers would be information technology, chemicals, pharmaceuticals and certain types of holding companies. However, some losers could be attractive investments, since they were open to takeover hids.

**The United Markets of Europe; Henley Centre, 2-4 Tudor Street, London EC4Y OAA. Tel: 01-353 9961.*

Progressives in call to replace Taiwan premier

BY BOB KING IN TAIPEI

TAIWAN progressives have begun agitating for the replacement of Premier Yu Kuo-hwa and most of his cabinet, less than two weeks before the 13th congress of the island's ruling Nationalist Party is to begin.

A group of MPs from the ruling party, deputies to the national assembly, professors, and others have circulated a statement among delegates to the congress that calls the cabinet of Mr Yu too conservative and unresponsive to public expectations.

"What we need is a cabinet that is creative and forward-looking and able to lead the nation through the present period of transition very quickly," the statement says in part.

The criticism of the 74-year-old mainland-born Mr Yu is not new. During his four years as premier he has borne criticisms ranging from his conservative policies while running the Central Bank to his heavily-accented spoken Chinese, which many here have difficulty understanding.

Some people even took a series of natural and industrial disasters in the early stages of his stewardship as heaven-sent signs that Mr Yu was not the man for the job.

What is new is that the current calls for a house-cleaning originate within the ruling party itself, rather than with the opposition – a sign that younger party progressives are determined to ensure that the forthcoming congress and events to follow subsequently mark a clear break with the past.

The China News, an English-language daily majority-owned by the ruling party, carried a report on the statement as its front page lead story – another indication that the calls for thorough reforms have wide backing.

Hong Kong's cost of UK garrison cut by 10%

BY KEVIN HAMLIN IN HONG KONG

A YEAR of bitter negotiations between Britain and Hong Kong on the funding of the 9,000-strong British garrison have resulted in the territory's portion of the bill being cut by 10 per cent, but some local politicians will attempt to block the new deal.

The agreement, to be initialled in London today, sees Hong Kong's share of maintaining the garrison falling from 75 per cent to 65 per cent for the nine years until June 30th, 1997, when China resumes sovereignty. Last year the territory's taxpayers paid HK$1.7bn ((£121m) towards defence costs, with Britain picking up the remaining HK$572m.

The stormy negotiations collapsed in March when Hong Kong officials, aware that many local politicians feel the territory is paying a subsidy for Britain's armed forces, adopted an intransigent position. The garrison in Hong Kong is more than three times bigger than that maintained in the Falklands.

It subsequently appeared Britain would agree only to a 5 per cent reduction in Hong Kong's share of the costs. But while the final outcome is thus better than many expected, some legislative councillors remain unhappy with the new agreement.

They plan to vote against it when it goes before the Legislative Council Finance Committee in July. The Government needs the approval of the Finance Committee before releasing funds for the garrison's upkeep.

China has said Hong Kong will pay nothing towards maintaining troops from the People's Liberation Army after 1997.

As it was widely understood Hong Kong's share of defence costs would be reduced on a sliding scale up to 1997, there was also dissatisfaction that a one-off agreement covering nine years had been reached.

Japan in pact to buy more US goods

THE US and Japan said at the weekend that they had reached an agreement designed to open the Japanese market to a variety of American consumer goods, AP reports from Washington.

The initiative, announced by Mr William Verity, US Commerce Secretary, and Mr Hajime Tamura, Japan's Minister of International Trade and Industry, is expected to lead to a substantial increase in consumer exports to Japan.

Initially, the agreement calls for increased access by Japanese consumers to US sporting goods, leisure products, furniture, jewellery, processed foods and pet food.

However, it is also hoped this list will be expanded to include a vast array of US-manufactured consumer goods.

"This initiative is the best way to provide Japanese consumers with a wide variety of products to chosa from at American prices, just as Japan has provided quality goods for Americans at competitive prices," Mr Verity said.

He noted that the dollar had declined 51 per cent against the yen since its peak in early 1985, making US products less expensive overseas.

"American products are more price competitive than ever," Mr Verity said. No specific export target had been set in the discussions, but, he added, "It is our belief that we can substantially increase exports to Japan from this process."

Mr Tamura said domestic demand in Japan was rapidly expanding and now was the best possible opportunity for market entry.

The Japanese have been stimulating their economy to increase domestic demand as a means of reducing economic imbalances with trading partners and to head off trade protectionist measures from countries overseas, including the US.

The Commerce Department said that in 1987 the US exported to Japan $284m (£113m)-worth of sporting goods and leisure products, along with $33.7m-worth of furniture.

Canute James in Kingston analyses the growing use of the Caribbean by an industry fleeing from high costs

US computer services seek an offshore home

BEHIND rows of video displays across the Caribbean, thousands of workers, mainly women, are processing airline and hotel reservations, entering data for banks, credit card companies and car rental agencies, typing address labels and typesetting US telephone directories and manuscripts of potential million-selling novels.

They are part of the region's rapidly expanding data entry sector which has been making the most of efforts by US companies to cut production costs by moving parts of their operations offshore to the Caribbean.

The sector will be given a filip next month when a high-speed data transmission facility will be opened on the Jamaican north coast next month.

The decision by several US companies to move increasing quantities of their data entry operations to the Caribbean has been influenced by difficulties the companies have in keeping costs down and gaining a competitive edge. Production costs, especially labour, are much lower in most Caribbean countries.

Most of the data entry operations, carried out by regional or US companies under contract, are located in Barbados, the Dominican Republic and Jamaica. In the vanguard of the new industry was American Airlines which established a subsidiary, Caribbean Data Services, in Barbados four years ago.

The company started by processing American Airlines' ticketing data, with the airline saying it had cut costs by a half of what it paid when the work was being done in Oklahoma.

Caribbean Data Services is expanding its operations this year to include transcribing and computerising taped medical data for several hospitals in the US. The company is also investing about $7.5m in a data entry park at the privately-owned San Isidro free zone in the Dominican Republic.

> Caribbean governments and companies have stressed the fact that wages paid to their workers are much less than those in the US. In Jamaica, data entry operators earn the equivalent of $50 weekly, and in the Dominican Republic, about $30.

The zone is dedicated to data entry and telecommunications operations. The early data entry operations in the Caribbean were based on the transfer of masses of paper to the Caribbean processors, with the day's work, put on disks and flown back to the US.

There is now increasing reliance on telecommunications systems which switch large packets of data from the region to the US, Canada and Europe.

The new Jamaican facility, a teleport, is expected to attract more data processing companies not only to the island but to other parts of the Caribbean. It will be owned by Cable and Wireless and American Telephone and Telegraph, with each holding a 35 per cent stake, and Telecommunications of Jamaica which holds the remaining equity.

It will offer clients, most of which are to be from the US, facilities for data entry operations, telemarketing, airline and hotel reservations and offshore office services.

The venture, to cost $8m, will be based on an earth station in Montego Bay, and will initially use satellite transmission, switching later to a $140m fibre-optic cable linking the Caribbean to the US, currently being built by AT&T.

"About two years ago a lot of local companies were set up to do data entry," explained Mrs Denise Henry, director of the manufacturing industries division of Jamaica Promotions, a state agency which encourages investment.

"Since then the number of new companies being created has slowed down. but they are all doing more work under contracts from the US. "When the teleport gets going we expect a flood of new companies and new business."

The data entry sector currently employs about 4,000 workers across the Caribbean, but the US Agency for International Development, which commissioned a recent study on the sector, said employment will reach about 20,000 in the early 1990s.

> American Airlines established Caribbean Data Services in Barbados four years ago. The company started by processing American Airlines' ticketing data, and the airline said it had cut costs by a half of what it paid when the work was done in Oklahoma.

Although most investments in data entry are concentrated in countries which have advanced telecommunications infrastructure, the AID report concluded that Grenada, St Lucia, St Kitts-Nevis and Montserrat offered "attractive alternatives" for US investors, although these countries' telecommunications facilities were less sophisticated.

In their efforts to attract data entry business, Caribbean governments and companies have made much of the fact that wages paid to workers in the region are much less than those for similar work in the US. In Jamaica, for example, data entry operators earn the equivalent of $50 weekly, while those in the Dominican Republic earn about $30.

According to Dominican officials, wage costs in a similar operation in the US are about $160. But the agency's study concludes that the wage factor is not the most important determinant in investment decisions.

It says the region is best suited for data processing operations which require turn-around time of between three and 10 days. The dependability of this turn-around time and the quality of the work, says the report, are more important to investors than the cost advantage of lower wages.

Companies using the facilities of Caribbean sub-contractors also regard the region's proximity to the US as an incentive which reduces the cost of transportation of the raw information and the return of the processed work. They say freight charges account for about one third of data entry costs in cases where the processed information is shipped to the US on computer disks.

Egypt stays silent over colonels charged in US

BY VICTOR MALLET IN CAIRO

EGYPT has maintained a stony silence over news that five people, including two Egyptian colonels, have been charged in the US with attempting to smuggle a carbon compound used for missiles out of the US on an Egyptian Air Force aircraft.

Egypt is one of the closest US allies in the Middle East and is second only to Israel in the amount of US aid it receives each year.

Mr Frank Wisner, US ambassador to Egypt, sought to play down the possible crisis in relations. "It is a very important relationship between the US and Egypt," he said, "and problems can be managed".

In Cairo, the main question is whether Egypt will be able to weather the storm as easily as Israel has been able to do in similar scandals in the past.

The US has said that one of the Egyptian colonels involved in the missile affair is based in Washington and has claimed diplomatic immunity. The other is based in Vienna, and the US will attempt to extradite him.

Three Americans have also been charged – an Egyptian-born missile engineer and his wife, and a marketing representative for a US military contractor.

According to court documents, the accused planned to ship more than 400lb of the carbon compound back to Egypt on a military aircraft. The substance is said to improve the accuracy of missiles by protecting them from heat.

Polls may prove disappointing for Occhetto

By John Wyles

JUST over 1m voters in two regions of northern Italy go to the polls today and tomorrow in local elections which may prove a disappointing debut for Mr Achille Occhetto, the new leader of the Italian Communist Party.

The voters of Friuli-Venezia Giulia and Val D'Aosta are expected to confirm the trend established in more extensive local elections a month ago. Then, the Communists lost votes to the Socialists.

Since his election to the top Communist job, Mr Occhetto has apparently encountered a belief among local leaders that the party's electoral slide will not be arrested.

De Mita adopts plans to reform local government

BY JOHN WYLES IN ROME

THE Italian government led by Mr Ciriaco De Mita has given the first eagerly awaited taste of its reforming intentions by adopting proposals which would greatly alter the shape and practice of local government in Italy.

The draft law to be put before parliament is the first element in a programme of institutional reform which the coalition parties regard as essential for improving the performance of the political system and the bureaucracy.

The Government wants to give more planning authority to provincial councils on environmental and civil protection matters.

Five provinces based on some of the largest cities – Rome, Turin, Milan, Naples and Genoa – would become metropolitan authorities with planning powers over the communal councils.

For the first time, local authorities will be given powers to raise some of their own revenue in local taxes. Unruly politicians, meanwhile, are to be brought to order and required to deliver a great deal more stability of government at local level than currently exists.

Here, the Italian proposal borrows from German practice by using the vote of "constructive no-confidence". This means that the governing majority on a council can only be overturned by a simultaneous vote which installs a new governing majority together with its policy programme.

UK NEWS

Universities seek extra £50m to aid restructuring

BY DAVID THOMAS, EDUCATION CORRESPONDENT

BRITAIN'S university vice-chancellors have asked the Government for £50m in extra funds so that they can continue shedding academic staff and rationalising departments into the early 1990s.

They have also told the Government they are planning to introduce more flexible pay systems and have warned they will need above-inflation, across-the-board pay rises next year if they are to avoid difficulties in recruiting, retaining and motivating academic staff.

These points are contained in a detailed note on the spending needs of universities prepared by the committee of vice-chancellors and principals as part of the annual review of public spending under way in Whitehall.

This year the universities will receive a grant of more than £1.5bn from central government. The Government also announced in November an extra £155m over three years to help universities restructure and shed staff.

In their note to ministers, the vice-chancellors say: "We foresee the need for additional restructuring funds to be made available beyond 1990 to 1991."

They justify this by referring to the subject reviews being undertaken by the University Grants Committee, the official body charged with funding universities, which have resulted in departments being closed or downgraded. Among the reviews in train or about to be launched are those of physics, chemistry, biology, dentistry and accountancy.

The vice-chancellors' note concludes: "We would therefore urge that at least a further £50m be made available in 1991-92 to enable the restructuring implicit in these reviews, together with that now in train, to be successfully completed."

They say that restructuring would be easier if financial support for the early retirement of academic staff was increased. They also acknowledge fears that the most recent salary increases for academics "would not fully solve the problems of recruitment, retention and motivation for university academic and related staff."

They suggest that next year's pay settlement will have to deal with the problem of pay erosion in the universities. They also argue that universities will have to start paying their technicians on the same level as workers with technical skills in industry.

The vice-chancellors advise the Government that staff problems in the universities will be helped through plans "to introduce a much more flexible pay structure. The introduction of local pay supplements could then help to overcome local recruitment and retention problems."

Britain 'not suffering a drinking epidemic'

By Lisa Wood

CLAIMS THAT Britain is suffering from an epidemic of alcohol consumption are mistaken, according to a report from Industry Forecasts, the market research organisation.

The report, Trends in Alcoholic Drink Consumption in the UK, examines long-term drinking trends in the UK over the past 300 years.

Industry Forecasts says that critics of the drinks industry, including the Royal College of Psychiatrists, have almost all used the years immediately after the Second World War as a base for proving that consumption was growing rapidly.

It argues that using this period – when alcohol consumption dropped to 3.7 litres of pure alcohol (lpa) per head – as a base to compare with 1987's consumption of 7.2 lpa is highly misleading.

Customs & Excise data, used with figures from the Office of Population, Censuses and Surveys, show that in 1900 consumption was 11.4 lpa per head.

Consumption then tended to drift down – as a result of stricter licensing laws, the depression and two world wars – before the trend started to be reversed in the 1950s. Consumption continued to rise until the late 1970s, since when it has fallen slightly.

Industry Forecasts says: "It is extremely obvious from looking at the long-term data trends that the increase in the postwar years was neither aberrant nor unusual. It was simply a return to more normal or usual levels of consumption."

The report says factors that will influence the UK alcoholic drinks market in the future include consumers' disposable income, the price of alcohol and the price of drinks relative to each other.

The one uncertainty is the proposed harmonisation of taxes within the EC – which would reduce prices of alcohol in the UK and lead to an increase in sales.

Trends in Alcoholic Drinks Consumption in the UK. Industry Forecasts, 22-24 Bell Street, Henley-on-Thames, Oxon RG9 2BG. £55.

Electronics industry faces harsh home truths

Terry Dodsworth on a gloomy picture of British manufacturers painted by McKinsey

THE McKINSEY report on the UK electronics industry contains hardly a single grain of comfort for the home industry.

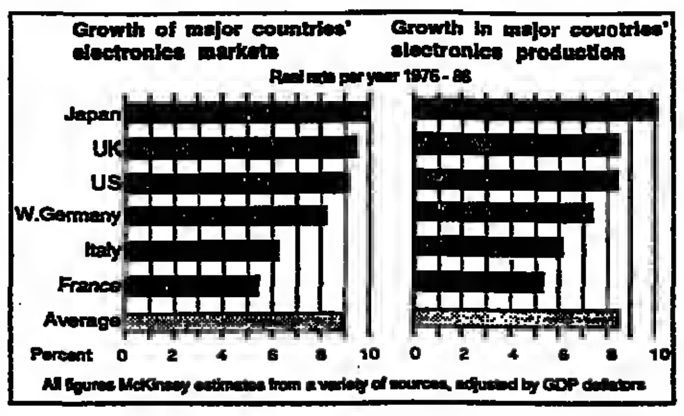
The study, prepared over the last six months for the National Economic Development Council by the US consultancy group, paints a relentlessly gloomy picture of the British-owned manufacturers, in spite of their enjoyment of a relatively buoyant domestic market.

Indigenous British manufacturers are indicted for their lack of adventure in overseas markets, their heavy concentration on the domestic defence sector, low investment and the inadequacy of their managerial organisations. They will, the report suggests, be hard pressed to survive in the highly international markets of the 1990s.

By contrast, the report shows that the UK as a whole has been a relatively satisfactory area in which to manufacture electronics products in the last few years. Adjusted for inflation, growth of the electronics market, at 9.4 per cent a year in 1976-86, has been above the average of 8.9 per cent in the leading industrialised countries, and manufacturing has expanded in response at a real rate of 8.4 per cent a year.

This expansion, however, has entailed two problems from the narrow national viewpoint.

First, output growth and exports have lagged behind the development of the market, leaving the UK with a yawning £2bn trade deficit by 1986.



Secondly, a great deal of the expansion in production has been created by multinationals operating in Britain.

The report does not suggest *that* all of this is bad. Indeed, it argues that electronics markets are becoming so internationalised that national economies all over the world will become increasingly penatrated by foreign-owned producers. As far as the indigenous British electronics companies are concerned, however, the McKinsey study contends that the process of globalisation spells undiluted trouble.

UK manufacturers, it says, are stuck principally in low-growth areas, particularly defence electronics and the public exchange part of telecommunications. They are not as well placed as their leading continental competitors to exploit the advantages of the European Community's 1992 internal market programme.

Their market niches, such as specialised integrated circuits, are coming under increasing attack from the big international groups. In due course, the domestic industry could be starved of human resources as foreign investors compete more vigorously for British engineers.

McKinsey suggests a number of solutions, mostly at the corporate level:

● Companies should focus more clearly on specific market areas, combining this concentration of resources with a global strategy. "Few UK companies in the past have had the courage to focus their attention and investment on the pursuit of a dominant position in just one or two sectors," the report argues.

● The managerial structure of the main UK electronics companies needs to be changed to reflect the demands of tackling international markets. In Britain, the study says, businesses tend to be run through highly decentralised organisations, with small headquarters staffs exercising strong financial control.

● UK companies need to communicate much more effectively with the financial markets to develop support for longer-term strategies. The report argues that a great deal of the problem of "short-termism" in Britain comes from the portfolio organisational structure of UK companies, which concentrates attention on specific operations rather than strategy.

● The UK industry should encourage the development of the component supply industry, which, the report says, appears "deficient not only in comparison with Japan but also with the US and Europe." The key deficiency, it adds, lies not in high technology but in low technology components.

● To achieve all of these changes, the study says that British companies will have to invest heavily in technical and managerial skills. It says: "While some UK companies have achieved high levels of skill in some aspects of their business, it is more rare that we encounter truly distinctive capability."

While many of these analyses and prescriptions for the UK industry are familiar, the McKinsey report is unusual in one respect. In a thoroughly Thatcherite fashion, it steers away from grand national strategies as a solution to the industry's ills.

This focus is deliberate, because the NEDC is producing a parallel study of comparative government policies. McKinsey also makes clear, however, that it believes the old-style "national champion" industrial policies are no longer appropriate to the electronics industry.

The global scale of business today, it says, means that support is becoming prohibitively expensive, while a great deal of this help has to go to support investment in assets and people overseas.

Since the name of the game has become international business, governments can today achieve domestic economic gains most effectively by supporting the entire industry – including foreign investors – rather than specific domestic companies, the report says.

It concludes: "The relative importance of value added by inward investors is likely to continue to increase in all countries, and particularly in European countries, and policy should therefore focus increasingly on the infrastructure which supports all company activity, rather than an explicitly or implicitly national champion approach."

Meiko sells £1.2m supercomputer to Japan

BY TERRY DODSWORTH, INDUSTRIAL EDITOR

MEIKO, the fledgling UK supercomputer group set up by former executives of the Inmos microprocessor company, has achieved a breakthrough in overseas markets with a $2m (£1.2m) order from a large Japanese industrial group.

The contract, with a company that wishes to remain secret, underscores mounting international interest in the UK group, which has finalised the agreement against intense competition from the large international computer manufacturers.

It also underlines the steadily increasing acceptance of the controversial Inmos microprocessor, developed with British taxpayers' support and still struggling to establish its industrial and financial viability. Meiko's design for its supercomputer is based on the Inmos transputer chip.

Supercomputers are particularly high-speed machines which slot into the market above the mainframe computers used for heavy-duty commercial computing tasks.

The most powerful machines, made by the Cray group of Minnesota in the US, can cost well over $20m. They are used mainly in specialised applications such as scientific research, weather forecasting and defence work.

Supercomputing has been heavily targeted by Japanese producers in recent years as an area for expansion because of the specialised nature of the market and the machines. As a result, the Japanese market is almost entirely supplied by domestically-based companies, in spite of strong US pressure to buy American computers to help to redress the US-Japan trade imbalance.

Meiko's strength lies in the price of its machines, which are claimed to deliver supercomputing power at a fraction of the cost of products made by conventional US and Japanese methods. The company estimates that one of its supercomputers, sold to the Rolls-Royce aero-engine group, cost less than a tenth of a conventional product.

These price reductions have been achieved by the use of the Inmos transputer, a computer-on-a-chip which can be linked together in an indefinite number of clusters to yield steadily increasing power.

Meiko, an employee-owned concern, with sales running at about £10m a year, was set up in Bristol three years ago. Mr David Alden, one of the founders, said the company had sold 176 systems, ranging in price from £20,000 to $6.9m.

The transputer technology has also led to the recent formation of another UK computer group under the control of Thorn EMI, the British electronics group which owns Inmos and which has been trying to find a partner for the business.

New magistrate for Alexander Howden case

A COURT hearing on allegations of fraud at Alexander Howden Group, the Lloyd's insurance brokers, resumes before a new magistrate in Guildhall, in the City, this week.

The previous hearing was abandoned on Friday after nearly three weeks when Mr Kevin Mallinson, the magistrate, said her husband was a member of Lloyd's.

The case, under investigation for six years, involves allegations of fraud and theft against Mr Kenneth Grob, the former Alexander Howden chairman, Mr Ian Posgate, the underwriter, and two executives Mr Jack Carpenter and Mr Colin Hart.

Privatisation 'has not made BT more efficient'

BY HUGO DIXON

PRIVATISATION has done little or nothing to improve British Telecom's efficiency, according to a study by economists at the University of Newcastle.

Their conclusion is the result of a comparison of BT's "total factor productivity" with that of telephone companies in other countries.

Total factor productivity is, in theory, one of the most objective measures of efficiency. It looks at all the inputs and outputs of an organisation and combines them into one measure.

On this measure, the telephone companies in Denmark and Norway are more efficient than BT. Italy and Spain are less efficient, while the West German system is about the same.

The authors, Mr James Foreman-Peck and Ms Dorothy Manning, conclude that privatisation in itself is "no panacea" for efficiency. They also argue that smaller telephone companies appear to be more efficient than larger ones and that BT's productivity might have improved if it had been split into several competing regional companies at the time of its privatisation.

'How Well Is BT Performing? An international comparison of telecommunications total factor productivity.' To be published in August's issue of Fiscal Studies.

Poor 'paying more in tax'

BY ALAN PIKE, SOCIAL AFFAIRS CORRESPONDENT

BRITAIN'S overall tax burden has risen since 1979 and is now less fairly shared between the rich and poor, the Low Pay Unit says in a review of the effects of this year's Budget changes on the poor published today.

In spite of income tax cuts since the Conservative Party came to power, says the unit, many low-wage couples are paying more direct tax as a proportion of their earnings than in 1978-79. Income tax cuts had been concentrated on higher income groups. Relatively small tax cuts for those on average earnings or less had been offset by increases in national insurance.

"The low-paid family of four has suffered the biggest increase in tax burdens. They are now paying nearly three times as much direct tax - as a proportion of their gross income - as they did in 1978-79."

When indirect taxes were taken into account the total tax burden - tax as a share of GDP - had risen from 34 to 38 per cent. The poorest households pay 23 per cent of their income in indirect taxes, compared with 16 per cent in the richest ones.

The unit also takes issue with the Chancellor for the emphasis which he has placed on US tax changes as a justification for cutting top rates of income tax.

Low Pay Review No. 33. Low Pay Unit, 9 Upper Berkeley Street London W1H 8BY £2

Army helicopter project may merge with rival

By David White, Defence Correspondent

BRITAIN is studying the possibility of merging a collaborative Army helicopter project with a rival Franco-German programme to pool development costs.

Lord Trefgarne, Minister for Defence Procurement, yesterday confirmed that a link-up was under consideration, although he added that a decision was still "a long way off."

The Netherlands – a partner with Britain, Italy and Spain – is already known to be pressing to integrate the two plans for attack helicopters.

Lord Trefgarne's comment, made at a press day for this week's Army Equipment Exhibition at Aldershot, follows a recommendation by the Commons Defence Committee last week that Britain should consider ditching the four-way collaborative venture and opt for a model in production.

Westland – which is involved in the project alongside Agusta of Italy, Fokker of the Netherlands and CASA of Spain – would be in a position to "customise" the US helicopter to British requirements, the committee suggested.

The joint helicopter, based on the A-129 Mangusta made by Agusta and about to enter service in Italy, is at the feasibility study and costing phase.

Strokes 'cost NHS £550m'

BY PETER MARSH

TREATMENT OF stroke victims costs the National Health Service about £550m a year, roughly 4 per cent of state health spending, according to a report from the Office of Health Economics published today.

The cost of treating the 220,000 or so people who suffer from the condition each year comes mostly from hospital care and does not include home nursing expenditure and other expenses to the community.

According to the office, a research body funded by the UK pharmaceutical industry, some 71,000 people a year die from strokes, defined as a cutting-off of blood to the brain as a result of a cardiovascular condition.

This number is roughly a quarter of all deaths resulting from malfunctions of the body's blood-supply system.

Stroke mortality declined by 20 per cent in England and Wales in the 10 years to 1986, according to the report.

Stroke. Office of Health Economics, 12 Whitehall, London SW1A 2DY. £1.50.

Burton plans travel expansion

BY DAVID CHURCHILL, LEISURE INDUSTRIES CORRESPONDENT

THE BURTON Group, the high street clothing retailer, is planning to expand its activities in the travel agency business.

Burton moved into travel last year when it acquired a 50 per cent stake in Abroad Travel, a small travel agency business in the Midlands and north of England.

Now it is looking at plans to expand the nine shops into a 200-strong national chain as well as other ways of selling holidays and travel accessories.

Mr John Neilson, chief executive of Abroad Travel, believes that many travel agents are poor at marketing holidays to consumers. "We think the traditional methods now look very tired and we believe there are new ways of attacking the market," he says.

Abroad Travel believes that Burton Group customers – especially those aged between 20 and 40 – are one of the most important sectors of the holiday trade.

It plans to use Burton's extensive knowledge of these customers – as well as its data base of information – to sell the type of holidays they most want.

Mr Neilson is not revealing full details of expansion plans because these depend on pilot schemes operating in the nine existing outlets. However, expansion is likely to be through piecemeal acquisition of sites with the help of Burton's property experts.

The possibility of opening travel outlets in Burton Group stores has not been ruled out.

Burton's plans for the travel trade reflect growing interest in the overseas package holiday market by retailers and other companies.

W.H. Smith, the newsagents chain, has some 200 travel agencies either based in its shops or standing alone and has plans to open 50 outlets a year.

The attraction of the market is emphasised by a new report on travel agents, published by Business and Market Research, which predicts a 40 per cent growth in the amount spent through travel agents – some £5.3bn last year – by 1990.

The report points out that many of the 10,000 travel agencies in the UK are small, one-shop operations, with an average profit of just over £12,000 a year each.

"Travel agents need economies of scale and this will be achieved by acquisition and merger," it suggests. There are already about a dozen large multiple groups of agents, each with between 200 and 400 branches, and these are expected to grow significantly in size.

"We do not anticipate that there will be a significant drop in the number of travel agents shops as customers like the convenience of shopping locally," the report says.

Opportunities for Travel Agents, Business and Market Research, High Lane, Stockport SK6 8DX. £207.

Industrial survey shows top results outside the south

BY ALAN PIKE

NATIONAL PERCEPTIONS about the north-south divide are "somewhat out of step with reality" when jndged on regional industrial performance, the Association of British Chambers of Commerce says today.

The Association defines performance in terms of companies reporting rises or falls in home and export orders, employment, investment and confidence. On this basis, manufacturing industry in East Anglia and the West Midlands produced the best overall results during the 12 months between the first quarters of 1987 and 1988. Scotland, Wales, the north-east of England and the East Midlands also scored well.

In tha services sector, the south-west, Scotland, East Anglia and the north-east came out top in the Association's survey. When the results for manufacturing and services were combined, East Anglia and the West Midlands performed best, closely followed by Scotland, the north-east and the West Midlands.

The Association says that the slowdown affecting London's service industries that followed last October's stock market crash continued during the first quarter of 1988. Employment growth in services declined, with job losses continuing in the financial sector.

However, the overall picture to emerge from the survey is of a positive, booming economy, Returns for home orders, employment prospects and investment in manufacturing were the best since the chambers of commerce began compiling regional information in early 1985.

Strong improvements in manufacturing employment prospects were recorded for the north-east, np 24 per cent; East Midlands, up 17 per cent; and Merseyside, up 11 per cent. East Anglia, Merseyside, Scotland and Wales all showed strong signs of improved prospects for service sector employment.

The problem of skill shortages continued to worsen. It was greatest in the Thames Valley, where 91 per cent of manufacturing employers interviewed in the survey reported difficulty in obtaining skilled labour.

Chambers' Regional Business Survey. First Quarter 1988. ABCC, Sovereign House, 212a Shaftesbury Avenue, London WC2H 8EW. £8

LONDON BUSINESS SCHOOL OUTLOOK

Inflation 'may temper tax cuts'

BY PHILIP STEPHENS, ECONOMICS CORRESPONDENT

BUOYANT revenues may give the Treasury the scope to cut the basic rate of Income Tax to 20 per cent as early as next year, but rising inflation and a widening trade gap look certain to dictate a more cautious approach, the London Business School says today.

In its latest Economic Outlook the LBS says that strong growth in earnings and in consnmer spending are likely to generate another overshoot in the government's revenues this year.

It predicts that the public sector's finances will show a surplus of £6bn in the current financial year and a surplus averaging £4bn in each of the next two years. In those circumstances, Mr Nigel Lawson, the Chancellor of the Exchequer, could slash the basic rate of tax from 25p to 20p in the pound in his Budget next March.

The Ontlook, however, says thet it is far more likely that a rapid deterioration in Britain's trade position this year and a further acceleration in inflation will force Mr Lawson to be much more cautious and to opt for a cut of only 1p.

The report projects the deficit on the current account of the balance of payments at £5.0bn in 1988, up from £1.7bn last year. It says the annual inflation rate could hit a peak of 5 per cent by the beginning of 1989 before edging back down to 4.4 per cent.

The publication today of official current account figures for May will be watched closely by financial markets, with any widening in the trade gap likely to intensify pressure for a further rise in interest rates.

An anaylsis of independent economic forecasts published by the Treasury at the end of last week suggests that the LBS is slightly more optimistic than most on trade prospects. The consensus among economists, for example, is that the current account deficit will be £5.6bn this year and £6.9bn in 1989.

The LBS expects output, which is being fuelled by both consumer spending and relatively strong investment, to rise by 3.4 per cent in 1988. The growth rate is then likely to slow to 2.4 per cent in 1989 before returning to a trend rate of about 3 per cent over the medium term.

Grudging support for currency policy

BY SIMON HOLBERTON

THE GOVERNMENT was right to let the pound's exchange rate rise above DM3 and deserves "grudging support" so long as its other policies are consistent with lower inflation and a general move to exchange rate stability, according to Mr Alan Budd, director of the London Business School's Centre for Economic Forecasting.

In a valedictory analysis of exchange rate policy, Mr Budd says it may have been an error to have held to the DM3 exchange rate for so long since it sent misleading signals about the Government's policy.

"The experiences of 1979-80 show that it is sensible for [anti-inflationary] strategy to include reasonahle stability of the exchange rate, but that is certainly not the same as believing that the Government's objectives can now be fully met by moving to a fixed exchange rate."

The problem in the UK, Mr Budd says, is the need to restrain domestic demand. This could be "crowded out" through higher interest rates or a higher exchange rate. Sterling should take some of the strain "particularly if the alternative would be lower capital expenditure and a lower sustainable growth rate."

In his analysis, Mr Budd compares recent experience with the prohlems the Labour Government faced in 1976-77.

The rise in the exchange rate in 1977 followed a period of rapid depreciation prompted by a lack of confidence in economic policy.

The rise in the exchange rate this year followed a similar depreciation in the pound, but one caused this time by the steep fall in oil prices in 1986.

The debate over exchange rate policy, Mr Budd says, has been mostly about methods: that is, how best to achieve the objectives of lower inflation

"Unlike the position in 1977, a policy which results in a stable exchange rate is not inconsistent with the objective of holding down or reducing the inflation rate. The problem, as has been evident this year, is how to respond to short-term pressures."

Ultimately, Mr Budd says, inflation will be the "judge and jury" of the Government's policies. However, as long as the "background" policies are consistent with lower inflation and a more general move to greater sterling stability, "we can provide our grudging support."

Busy parliamentary schedule raises doubts over bills

BY PETER RIDDELL, POLITICAL EDITOR

THE FATE of several promised bills is now uncertain as Whitehall departments fight for a limited number of places in the 1988-89 legislative programme, which will be dominated by further privatisation measures.

Draft legislation is certain to cover the sale of the electricity and water industries, but other measures, including bills on competition policy and company law reform, are still a matter of debate.

The pressure on the timetable arises partly because the current session of Parliament is likely to overrun by two or three weeks. The Queen's Speech, which sets out the Government's legislative programme, will probably therefore be put back until the end of November. With a number of days each session reserved for debates initated by the Opposition and other set occasions, the delay cuts the amount of time available for Government bills.

Consequently, Mr John Wakeham, the Leader of the House of Commons, and government business managers are taking a tough line with departments on the cabinet committee which deals with the Queen's Speech and legislation.

The main measures certain to be included in the 1988-89 programme are the following.

- Electricity privatisation: restructuring of the industry into two generating companies, a separate national grid, twelve distrihutors and a new regulator ahead of sale. It is not yet clear whether the Scottish electricity industry will be covered in the same bill.
- Water privatisation: reorganisation of water authorities ahead of flotation and formation of a National Rivers Authority.
- Housing and planning: changes in housing capital grants and separation of housing revenue accounts for local councils, plus simplification of planning regulations.
- Official Secrets Act: implementation of a forthcoming policy White Paper to clarify the current law.
- Prevention of terrorism: updating of law after an official report.
- Representation of the People: extension of the franchise for British citizens living overseas, plus minor tidying up.
- Child care: long-promised changes to the law after several official inquiries and recent controversy over child abuse in Cleveland, north east England.
- Experimentation on embryos and test tube babies: establishment of licensing authority and framework for embryo research.

Otherwise, apart from the Finance Bill and similar annual measures, there is still uncertainty about what will be included. However, because the Home Office already has three firm controversial measures, it has been decided that the promised Broadcasting Bill (covering radio and standards) will not coma in 1988-89 but will be included in an omnibus broadcasting measure in 1989-90, also covering television.

The other main candidates for inclusion in 1988-89, still undecided, are as follows.

- Competition: measures to change the rules for handling mergers and takeovers, and to overhaul the law on restrictive pratices (both following consultative papers).
- Companies Bill: amendments to tidy up anomalies in, for example, powers of investigation and in dealing with insider trading, as well as affecting requirements on small quoted companies.
- Road traffic: introduction of tougher penalties for drunken driving and other offences, plus licensing of operators for autoguides (electronic route guides fitted to cars).

In other cases, it is uncertain whether legislation will be proposed because basic decisions have not yet been taken on, for example, the possible conversion of student grants into loans and the review of the National Health Service. In both cases bills could still be slotted into the programme.

There is pressure to avoid overloading not only from Mr Wakeham but also from his opposite number in the House of Lords, Lord Belstead, who is already facing complaints about the heavy workload facing peers this year. The Lords is expected to sit into August and return from the summer recess at least a week earlier than the House of Commons.

Kinnock ready to hit back against critics

BY PHILIP BASSETT AND MICHAEL CASSELL

MR NEIL Kinnock, the Labour Party leader, will this week attempt to restore both his personal authority and his party's public standing, following a damaging row over defence policy and criticism of his leadership style.

The latest opinion poll suggests that Labour's problems have given the Conservative Party, led by Mrs Margaret Thatcher, a major electoral boost. Mr Kinnock and his deputy, Mr Roy Hattersley, meanwhile face an internal challenge in the Labour Party's current leadership elections.

Mr Kinnock's first major opportunity to regain the initiative will be on Wednesday when he addresses the National Union of Mineworkers' annual conference at Great Yarmouth.

An indication of the potential difficulties involved surfaced yesterday when Mr Arthur Scargill, the union's hard-left president, attacked Labour's current direction and openly supported Mr Tony Benn, Mr Kinnock's rival for the leadership.

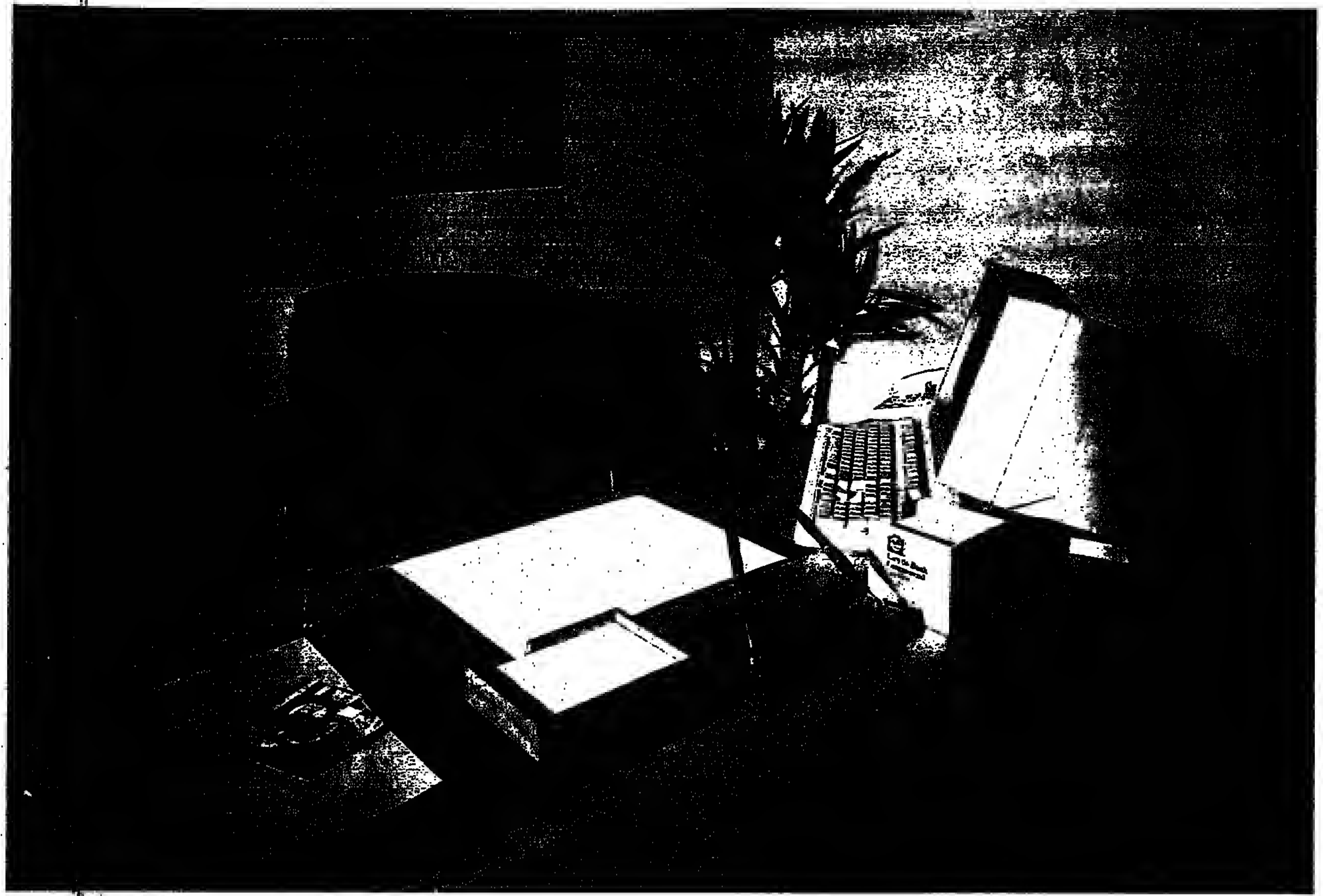
Senior Labour party figures are acknowledging that the turbulenca of the last three weeks, which started with controversial remarks by Mr Kinnock, apparently back-tracking on Labour's support for unilateral nuclear disarmament, has provided a bonus to the party's opponents.

Anger was also being expressed, however, at those MPs who launched anonymons attacks on Mr Kinnock over the weekend, suggesting he was becoming an electoral liability. A party spokesman criticised "the handful of unrepresentative and unimportant MPs who mutter darkly and disloyally."

The critical comments followed a Harris poll for yesterday's Ohserver newspaper, which showed the Government's lead over Labour has quadrupled in the last month.

The poll gives the Conservatives their biggest lead recorded this year, with 48 per cent support against 36 per cent for Labour, 9 per cent for the Social and Liberal Democrats and 3 per cent for the Social Democratic Party.

The picture will make particularly gloomy reading for Labour, given the approach of the Kensington hy-election on July 14. The Conservatives are defending a majority of 4,447 in the west London constitnency and last week Mr Hattersley claimed the party had a very good chance of success.



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Management succession

A slow handover by Brazil's entrepreneurs

John Barham on a situation that is both a weakness and a strength

A CENTURY ago, two immigrants set up shop in the same southern Brazilian town. Within decades these two men, Francesco Matarazzo and Antonio Pereira Ignacio, had founded two of Brazil's greatest industrial dynasties.

The reason Brazil has become an industrial power is partly because of men like Matarazzo and Pereira Ignacio. The entrepreneurial tradition persists to this day. The country's largest bank, TV network, construction group, distillery, supermarket chain and car parts company, to mention a few, are still run by their ageing founders.

"The predominance of powerful family companies is as much a weakness as it is a strength," says Joao Bosco Lodi, a management consultant. "Their founders are men of great intuition and leadership who know their businesses inside out."

But as a rule, they do not encourage ambitious executives. This matters, because entrepreneurs own so many of Brazil's major companies. "Managers in a family business know that their careers are limited by autocratic owners and their heirs. So talented but frustrated managers tend to move on, leaving a vacuum that is often filled by the less talented," says Lodi.

Neither do many Brazilian magnates groom their heirs. Paulo Possas, once a senior executive in a now-defunct family company, says: "Heirs suffer from a domineering father who demands more from them than they can possibly deliver and yet they forbid their children from competing with them."

Management consultants and the more enlightened owners of family companies have invested large quantities of money and energy in dealing with the twin problems of succession and administration in family businesses. Yet there is still a real concern at the prospect of a generation of great entrepreneurs dying or retiring in the coming years.

For all their efforts, though, the consultants seem to make little headway. Five years ago, a consultant was called in to advise Rede Globo, Brazil's biggest TV network, on streamlining its management. He recommended that Roberto Marinho, 83, who founded and owns the company outright, should decentralise and regionalise production. But the network's operations are still concentrated in Rio de Janeiro and Marinho is still said to be firmly in control.

Bom Bril, a Sao Paulo company which claims to be the world's biggest maker of steel wool, almost collapsed on its founder's death. It was only after Roberto Ferreira Sampaio, a former scrap merchant, died in 1981 that his son, Fernando, could take over as president and fire 300 managers.

Dispute

Says Fernando: "There were a number of directors that were with the company for a long time and closely identified with my father. They had divided up the company and resisted change."

He says they ran up heavy debts, relied on a single product, failed to control costs and were not growth-oriented. Simultaneously, Bom Bril was riven by a bitter dispute between the three Ferreira Sampaio brothers for control of the company.

Now, after a thorough management overhaul and the establishment of peace between the brothers, the company is thriving once again. Sales increased 30 per cent in real terms last year to $130m.

Roberto Maluf, who executed the management overhaul at Bom Bril, says one of his first recommendations was "to make the executives accountable. Before, they were not accountable to anyone." Ferreira Sampaio says he has professionalised management, created a career structure, diversified product lines, increased productivity and controlled costs.

Commenting on the frequent refusal of ageing Brazilian entrepreneurs to relinquish power, Joao Bosco Lodi notes that "control of a company bestows bargaining power and financial and political credit. Great wealth does not."

Roberto Teixeira da Costa, president of the Brasilpar investment company, points out that Brazil's capital markets are underdeveloped. This discourages private companies from going public and diluting their founders' power. Renato Bernhoeft, another management consultant, says: "I have seen companies prefer the prospect of ruin rather than go public."

Yet even when a company does go public, it is not enough to foster a managerial culture. Under Brazilian law, a company can issue two preferred shares for every one ordinary share. This means that an entrepreneur can maintain control of the board with just 17.3 per cent of a company's capital. In many public companies, executives remain beholden to the founder or his heirs, not the shareholders.

There are exceptions. Amador Aguiar, 84, founded in the 1943 and still runs Banco Brasileiro de Descontos (Bradesco), Brazil's biggest bank. For years, he has been transferring his stock to a foundation and the bank's directors. After one false start, he has sought out and groomed a successor, Lazaro Brandao.

Most Bradesco directors have risen through the ranks before reaching the boardroom. Brandao entered the bank 42 years ago. All employees are inculcated in the bank's austere culture – so austere, that they are discouraged from drinking or smoking. Not even board members have their own office. They all work at the same long table.

Industrias Votorantim, the industrial conglomerate founded by Antonio Ignacio Pereira in 1918, is now Brazil's largest privately-owned group. Its success is due in large measure to the energy of Ignacio Pereira's heirs and the company's efficient executive corps. It has already begun preparing the fourth generation to take over the family business, currently run by the brothers Jose and Antonio Ermirio de Moraes – grandsons of the founder – who are in their 60s. They have put their sons and nephews in key positions in various subsidiaries. They hold monthly brainstorming sessions to develop new ideas and defuse premature sibling rivalry.

Disruptive

All the same, many consultants expect the succession at Votorantim will not be smooth. No heir apparent has been selected and they expect the battle for leadership among the 14 family members in the company to be disruptive and long drawn out.

The historic trend among private companies in Brazil is not encouraging. They usually begin declining after the third generation. Teixeira Costa feels that as the economy grows and becomes more sophisticated, the pioneering role of powerful entrepreneurs – a common phenomenon in developing countries – will decline. "Globalisation of the economy and Brazil's need to compete in a global economy will require huge amounts of capital," he says.

To survive, the entrepreneur must seek out foreign partners or take his company public. Ultimately, he must surrender total control. Jose Ermirio de Moraes of Votorantim, who will be 62 in November, is due to retire this year. He recognises that in the end full control must slip from the family's hands. He told Gazeta Mercantil, a local business paper, that the third generation is numerous "and the tendency in the future is to divide the shareholdings. Because of this, the company will have to go public."

However, Brazilian entrepreneurs are undeterred by the pressures faced by the large dynasties and, indeed, the decline of second- and third-generation family companies is feeding a new generation of entrepreneur. Maria Pia Matarazzo is arduously rescuing from collapse the company founded by her grandfather Francesco Matarazzo. The Vicunha group, a family-owned business which is now the largest textile group in South America, has grown fast by buying up declining family businesses and turning them around.

Yet the management problem never seems to go away. Consultants note that one of Brazil's largest and, until recently fastest-growing, electronics groups is notoriously badly-managed. Its founder, owner and president habitually hires highly-paid executives to reform the deeply indebted company, only to override their orders.

More enlightened of Brazil's industrialists (left to right): Amador Aguiar, Roberto Marinho, Maria Pia Matarazzo, and brothers Jose and Antonio Ermirio de Moraes

Education

Lessons for the teacher

Headmasters face a greater management role, reports David Thomas

WHEN JOHN Quinton, chairman of Barclays Bank, takes time out of his schedule to urge bankers to develop a greater interest in schools, something unusual must be happening.

Stirring in the undergrowth is a movement for co-operation between business and schools "more powerful than at any time since the Second World War," as Quinton told a conference of bankers and educationalists held at the Barbican last month. It was jointly organised by the Banking Information Service, representing the high street banks, and the Society of Education Officers, which pulls together educational administrators from the local authorities.

Quinton was not referring to the type of bankers' involvement in schools which many people can remember from their school days – the annual visit from the local bank manager to assure a sceptical careers class that banking was really a very exciting occupation.

At issue is a much more ambitious project. Schools are a significant business in their own right, often with an annual turnover of more than £1m. They will have an increasing need for people with industrial, financial and management experience, Quinton said.

That this sentiment is becoming commonplace is mainly due to a key section of the Education Reform Bill, now completing its passage through Parliament. In future, responsibility for decisions in a host of areas, including finance and personnel, will be delegated from education authorities to schools. This reform, to be phased in by 1993, will apply to all secondary schools and to primary schools with more than 200 pupils.

So head teachers will have to start viewing themselves as managing directors. Indeed, the parallel with business was explicitly invoked by Bob Dunn, Education Minister, in his speech to the conference: "Detailed financial and management decisions are best taken by the local managers on the spot – in other words the school governors and the head – rather than being referred in each case to 'head office' in the form of the local education authority."

This vision is open to the objection that most head teachers have little management training or experience, being used till now to handling only the small change of school budgets. Well aware of this, Ministers are making £25m available next year to help education authorities buy computer-based management information systems and to train school administrative staff in budgeting, accounting and other management techniques. Extra money is also being ploughed into management training for heads and for governors, whose woeful lack of training was revealed in a report published by the Department of Education and Science only last week.

Much of this upsurge in training is likely to be met by private sector training agencies, providing them with what could turn out to be a considerable bonanza. But witb the school system strapped for cash, many heads will probably look for support to their local business community, either through membership of governing bodies or more informal contacts. Hence the Barbican conference.

What the conference revealed was a willingness by most participants to learn from the other side of the school-business divide coupled with an uncertainty as to what lessons there were for the learning.

Brian Stevens, manager of the Banking Information Service, suggested several routes for bankers to help schools, including advising education authorities on how to set up the new structures and taking head teachers into banks in the school holidays to learn about financial and other management techniques.

But few participants, least of all the bankers in the audience, picked up such ideas with enthusiasm. Partly this was due to puzzlement as to what was in it for the banks: among the suggestions were civic duty, a higher profile in the schools when recruiting staff and access to new business when, as seems inevitable, schools begin to run considerable bank accounts.

Partly too it was a question of wondering how easy it is to transfer management techniques. "Do you really think your bank has the capacity to teach a head to run a school?" asked a Gloucestershire head teacher who said that would be as silly as telling a head to run a local bank.

What most heads at the conference seemed to want was assurance that a better class of people would become school governors now they are to have much more power, together with confidence that heads could turn to friendly businessmen for advice if necessary. This may be the less than glorious role for bnsiness in schools at the end of Education Secretary Kenneth Baker's managerial revolution.

Management abstracts

Job efficiency and executive feedback. *S. Wrinch in Industrial and Commercial Training (UK) Nov-Dec 87 (3 pages).*

Within a few months of taking up his appointment as personnel director of Schering Health Care (pharmaceuticals), the author decided that existing staff appraisal schemes left (as in most organisations) much to he desired. This is an account of how management developed a new scheme which is known as JEEF (as in the title) and is a case history showing the author's commitment to the idea of making staff appraisal an all-embracing management tool and thus much wider than personal assessment (and totally divorced from salary review)s.

Why won't directors rock the boat?. *A. Patton and J.C. Baker in Harvard Business Review (US) Nov-Dec 87 (4½ pages).*

Argues that far too many boards of directors are only window-dressing, are too big for effective debate, and many directors' ties to management and the CEO are so strong as to preclude challenge and dissent. Makes suggestions for correcting this situation to encourage give-and-take between board and management: eliminating the practice of joing chairman-CEO, reducing board size, improving director selection by spreading the net wider, limiting the number of directorships an individual may hold, pruning those who don't contribute, and encouraging stock ownership through compensation policy.

These abstracts are condensed from the abstracting journals published by Anbar Management Publications. Licensed copies of the original articles may be obtained at a cost of £4 each (including VAT and p+p, cash with order) from Anbar, PO Box 23, Wembley HA9 8DJ.

THE MONDAY PAGE

Two man-made disasters

ANTHONY HARRIS in Washington

AS IS USUAL in an election year, normal politics are being suspended early this year. The news is dominated by the drought, a strictly non-partisan disaster (except for the State Governors involved), and by the Navy purchasing scandal, now generally known as Pentagate, which remains firmly in the hands of the prosecutor and the Grand Jury, and is likely to remain *sub judice* until next year.

This will influence the election, because it underlines the idea that this is a very negligent Administration; it was taken by surprise not only by the bribery, but also by the investigation. The politicians can only sit and watch, though. Irangate is proving that Congressional hearings impede justice if they are held too early, and in any case the Democrats fear that some of their own people may be involved, as they are in that other Reagan-era disaster, the savings and loan collapse. We will return to the disasters (though not to the bribery) later.

Meanwhile, Congress is working through the spending bills which will almost certainly lead to another Gramm-Rudman deficit crisis at the end of the year. The interest-rate forecasts on which the present budget was based are proving decidedly too optimistic – though the growth forecasts, also attributed at the time to that hard-working Presidential aide, Ms Rosy Scenario, are actually proving to be quite cautious. The Trade Bill also has to be passed again in its new two-part form, and may well become law in spite of the President's objections.

For the rest, though, it is a matter of laying down markers for the next session, and essentially for next year. Some of them are suggestive. The Senate has started holding hearings on Japanese patent law. Some early evidence suggests that the Japanese law favours big companies over small ones rather than showing any bias against foreign inventors, but the result is almost as objectionable from an American point of view as outright discrimination. In Japan it is the big companies which do nearly all the innovating, while in the US it is mainly the small ones, and some of them are complaining that their ideas have been stolen.

Until recently this would have provoked a good deal of chest-beating about the superiority of the American Way, but we already seem to be drifting into a post-Reagan era of self-questioning. A lot of people are beginning to believe that the small, innovative American company is not quite what it is cracked up to be.

It may be founded by a genius, but he is likely to lack the capital to take full advantage of his ideas. This idea is now appearing in the management journals, and is a kind of sub-test to the patent hearings. It may appear more openly in the parallel hearing on super-conductivity; there is a real dread that the giant Japanese companies will get there first.

This new strain of thinking is a bit of an embarrassment to the Democrats. They would love to exploit the popular loathing of Wall Street and its share manipulators, and indeed Governor Dukakis is said to have been restrained with some difficulty from making a major speech denouncing takeovers. It is an incomplete speech, though, because he has very little idea what he would do to stop them, and his advisers cannot agree whether he should.

The drought may also bring regulation back into fashion. Many serious people here regard this not as a routine, isolated disaster, but as part of a very worrying trend. It is only five years since the last severe drought, and there has not been a really wet year in the 1980s.

Though the average temperature is only half a degree Fahrenheit higher than the average of the last 50 years, the records show that that plateau was preceded by 50 years of rising temperature. All this is convincing many people that the much-discussed greenhouse effect, a global warming due to carbon dioxide in the atmosphere, has already set in – and may even have set in a century ago.

This idea was given new authority last week by Dr James Hansen, of the National Aeronautics and Space Administration (Nasa), who appeared before a Congressional drought inquiry. He said he was "99 per cent certain" of the cause, and explained that if the trend goes on, it will destabilise agriculture for years to come, since regions which are safe today will suffer tomorrow. Worst of all, the predicted effect will be strongest by far in mid-Continental areas in the high latitudes, which could mean the whole of the great plain of the US and Canada.

If this is indeed a man-made disaster, man should be able to stop it. This idea has brought two almost forgotten ideas back into debate: a national campaign for energy efficiency, which could cut carbon dioxide emissions; and a new drive for safe nuclear power, which is non-polluting in principle. Such notions could only be put into practice through pretty radical interventions – energy taxes and restrictions on industries and utilities, for a start.

They would lead logically to pressure for international standards, not to mention an international drive for forest conservation. It is true, as Dr Hansen conceded, that the lead times are mercifully long, and the whole debate could be washed away by a good belt of rain (of which there is no sign at the moment). However, as water restrictions spread, and if food prices rise – as they may do sharply next year, since stocks will be depleted – the debate may become both heated and international.

Hardly anybody, on the other hand, is discussing the other great man-made disaster, which concentrated in the south and west rather than the heartlands. The savings and loan catastrophe is getting steadily worse – and the word is not too strong. A recent visitor from the Bank of England is reported to have turned almost grey with horror when he had the full facts.

It was caused first by rising interest rates, since fixed-rate mortgages are still an American tradition; and it was then made much worse by the Reagan "cure": deregulation without supervision. Good money was thrown after bad in tens of billions. Now the disease is feeding on itself. Because the Federal government cannot find the money to give the dead a decent burial – the cost is now put by Senator Proxmire at $75bn (£44bn) – they are at large like vampires, feeding on the living. They bid up interest rates and inflate the cost of deposit insurance.

The result at the moment is to paralyse both the politicians and the Federal Reserve. The politicians are afraid they will discover that their best friends and financial supporters are criminally involved – the charge, in good blunt language, is "looting". The Fed fears that a rise in interest rates will bring the whole ruin crashing down. For the moment a strong dollar is keeping the problem at bay – but for how long? This may be a dead season for policy, but it is *not boring.*

INTERVIEW

A hard heart on his sleeve

A.H. Hermann meets Alexander Sukharev, the Soviet Union's Attorney General

MR ALEXANDER SUKHAREV, 60, a stocky man with a youthful but deeply-lined face, and since last month Attorney General of the Soviet Union, has been for some time Mr Mikhail Gorbachev's principal trouble-shooter. His recent assignments included corruption trials which had a powerful reverberation in the political strata, as well as the, so far unsuccessful, attempt to pacify the conflict between Azerbaijan and Armenia.

I heard him twice addressing the Moscow seminar arranged jointly by the International Bar Association and the Association of Soviet Lawyers, a body dominated by academics and intended to be an international mouthpiece rather than a genuine professional organisation. What Mr Sukharev said on these occasions was well ahead of most of his compatriots in the audience, both in content and in form. He took a *perestroika* line, speaking courageously, as only one close to the top dares, without a script. He is not a polished speaker, but his language is refreshingly simple and unambiguous. He can easily slide into the humorous banter which Mr Gorbachev has brought back into fashion.

> 'We are now trying to get back to the humanism of Lenin'

Later, I met him for a relaxed and informal chat, for which he chose the Moscow House of Friendship, one of the few surviving pre-revolutionary buildings of elegance, which a notorious sugar magnate had built for himself in the style of Russian baroque mixed with oriental mysticism. The elegant meeting room, completely panelled, was presided over not by the effigy of Lenin, as is usual, but by an exquisite alabaster bust of a young girl. Two men in overalls passed twice through the room which made me think that there was something wrong with the invisible recording system.

Mr Sukharev arrived somewhat late, but apologised gracefully and to my great relief encouraged me to take off my jacket and loosen my tie. We were in the midst of a Moscow heatwave, the likes of which has not been experienced since 1975. There was another good reason for Mr Sukharev's delayed arrival: he had just taken over the inquiry into a great railway disaster near Moscow which had occured the previous Saturday.

Mr Sukharev likes to present himself as a man with his heart on his sleeve, but he can move with frightening suddenness from relaxed banter to the stern demeanour of a party boss who will not suffer any discourtesy on the part of those addressed by him. He admits to being an emotional man and I would say that he has learned to use his emotions to good political purpose.

Born in Voronezh into a working class background, he was 13 when Hitler's armies overran the Ukraine and 17 when the Soviet army finally drove the Nazis out and reached Berlin.

His father was killed in the war. Like many Soviet party bosses, Mr Sukharev has an old mother who will pray and kiss the icons. It is refreshingly new that a man of his standing can now be quite open about it, as well as about the fact that his brother and sister are not party members. They are workers, he says, but his son seems to be following father on the rising path: he is an international lawyer.

Mr Sukharev makes no secret that in addition to a youthful desire to improve the world, to serve his war-ravaged country, and to see justice done, he was also driven forward by personal ambition. Ambition is, of course, a necessary ingredient in the making of a politician East and West alike, but Communist politicians are not supposed to admit it.

To rise in the world, Mr Sukharev chose the double ladder of party organisation and law. In the party he rose through the Komsomol – the youth branch of tha party – from local to regional importance, while studying law by correspondence. Law, with party backing, led to a career in the prosecution service, and to his appointment as the Minister of Justice of the Russian Federation, the post from which he was promoted in the last week of May 1988 to the most important office in the Soviet judicial system.

The day before our encounter, the celebration of the millenium of the Russian Orthodox Church reached its high point in the ancient monastery of Zagorsk. Mr Sukharev spoke warmly of Lenin's friendly attitude to Christians and Moslems alike, obviously assuming that the new tolerance of religion is music to Western ears.

He was probably right, but I could not help thinking of the pre-Stalinist West European Left who rejected religion as an "opium of mankind", replacing it by the new religion of Marxism-Leninism. I asked Mr Sukharev whether the new tolerance of religion did not become necessary because the Soviet people lost *faith* in the moral code which was so important to the early communists and their sympathisers. "Yes, you are right," was the prompt answer, "the communist moral code was distorted by Stalin – we are now trying to get back to Lenin's humanism."

When did he realise that there was a need to overcome Stalinism, I asked. "Ten years ago" was the short and obviously ready made answer. No explanation was offered, but the timing corresponds to the first unsuccessful attempts by certain Soviet academic lawyers to have their thoughts about the need for reform published.

Ten years ago, 1978, was ten years after the Czechoslovak attempt to give communism a human face was crushed by Brezhnev's army. I asked whether the return to Lenin's humanism was not very much the same as what the Czechs and Slovaks wanted in 1968. The answer was an explosive "No!" Mr Sukharev's face underwent one of his sudden transitions to that of a hard party boss. Without saying another word he made it clear that no discussion of this subject is possible. I had the same experience with other Soviet dignitaries.

Returning to the role of a moral code – communist or religious – I suggested that the system in which people live and work may often provide stronger motives for their behaviour than their conscience. Perhaps those who are always good or always bad form only a small minority, while the majority of people do what the system expects and rewards.

Mr Sukharev's disagreement with this proposition was as vehement as that of Lord Mackay's, the British Lord Chancellor, when I put it to him recently. Like Lord Mackay, Mr Sukharev has a higher opinion of the idealism and public spirit of people than the proposition suggests. He gave me a lecture on the great and selfless enthusiasm shown by the Soviet people in building communism, leaving their homes for the opening of new lands, achieving a high degree of social security for everybody: "We have a different concept of human rights from the West. We do not believe, like President Reagan, that people who sleep under the arches like it and should be free to do so."

Mr Sukharev let pass with a patient smile my retort that those sleeping under the arches in Western cities may be rather a medical than an economic or human rights problem. He continued: "We can see now that while concentrating on the social security and welfare of our people, we have neglected the need for political freedom. Our reconstruction programme is not exclusively economic. We will revitalise the legislative organs and make them independent of the executive and we will establish guarantees for the personal rights of the citizen by revamping both the law and the machinery of justice. We will put an end to interference with courts and to the arbitrary power of bureaucrats."

> 'We will not respond in the way Stalin did - there will be no repression'

I reminded Mr Sukharev of the Marx-Leninist thesis that the wounded cow kicks back and that a defeated class resorts to sabotage and subversion – a thesis used by Stalin to justify his reign of terror. Would the rule also apply to the bureaucratic class defeated in the course of *perestroika*? "It is a general rule and does apply to our situation," was the prompt reply, "but we will not respond the way *Stalin* did, there will be no repression."

I remarked that this programme was followed with great sympathy abroad, but that many people wondered whether *perestroika* would not suffer the same fate as Mr Khrushchev's 1956 attempt at de-Stalinisation. "Our situation is different," said Mr Sukharev. "There are two reasons why *perestroika* is irreversible. First, it is not a reform imposed from the top, from the Kremlin. It is something which the Soviet people want. The new openness of our press and media – and the measures we are taking against those who suppress criticism – enables the voice of the people to have a political effect. Second, our efforts are not restricted to political slogans.

"Our new election law will allow the pluralist character of society to come into play. Our new enterprise law is already releasing creativeness in our economy. And we will provide a guarantee of the citizens' individual, personal rights by making the courts as well as the prosecution service independent."

This, I suggested, may be a task manageable by him in the centre, but can his influence reach public prosecutors far away from Moscow, exposed to local politics and operating in different conditions? Mr Sukharev answered my doubts by describing the All-Union organisation of the prosecution service – his writ reaches the remotest parts of the country.

This, of course, was pure theory. As long as one can remember, the regional and local Soviet prosecutors were at least as much mindful of the local party secretary and of the local chief of the secret service, as of the direction received from Moscow. Indeed, the three, forming the apex of the local power network, often are the unofficial but very real local government. "What about the *troikas*?" I said.

Mr Sukharev again underwent one of his sudden transformations from the man with his heart on his sleeve to the hard party boss. "I will deal with them." And an eloquent gesture of his hands, suggesting the wringing of a chicken's neck, made it quite unnecessary for Ms Helena Alferova, the Secretary of the Soviet Lawyers Associations, to continue with her expert interpreting. Although Mr Sukharev is opposed to capital punishment, he is clearly ready for decisive action.

So *perestroika* has some chance of surviving, I thought while shaking hands to wish goodbye. After all, Lenin was not exactly a "wet" either.

Speeding up public inquiry

JUSTINIAN

ANYONE WHO is appointed to conduct a public inquiry instinctively resolves to carry ont the inquiry without fuss and report with a minimum of delay. Almost invariably however, the inquiry is protracted and the exercise costly to the public authority ordering the inquiry. The resolution, however steadfastly held, remains unfulfilled.

Whether it is the Fennell Inquiry into the King's Cross fire disaster (which ended its 91 days' hearings last week) or the Butler-Sloss Inquiry into the Cleveland child sex abuse cases (which sat for 74 days and whose report will appear next week), almost every public inquiry of recent years has involved inordinate delay in decision-making by politicians and administrators and in much-needed legislation, as well as a heavy demand on limited financial resources. The public is baffled by the time-consuming features of such inquiries and in its bafflement it sees lawyers as the main obstacle to speedy reporting by the inquiring bodies. Large fees earned by top lawyers serve only to heighten the public's unease.

An inquiry is not a trial, with its predetermined rules of evidence or of established practices and procedures. An inquiry can fashion its own mode of procedure, tailored to the particular subject matter. Yet every inquiry quickly recognises that the twin principles of thoroughness and fairness operate strongly against alacrity. Few people would quarrel with the need to investigate the relevant issues thoroughly. But thoroughness is not necessarily the enemy of expedition. It is adherence to the principle of fairness that is the main obstacle to the speedy conclusion of an inquiry.

Most inquiries recognise that professional and other persons may have their reputations, not to say their jobs, at risk. Even if there is no question of later criminal proceedings or disciplinary action against those who may have been found at fault, adverse publicity in the inquiry's report may be just as damaging to a future career as to an individual's self-esteem. These individuals will seek to have their interests protected by legal representation. Before both the Fennell and Butler-Sloss inquiries there was a battery of barristers and their instructing solicitors armed with their clients' ammunition. If the overriding duty of lawyers is to assist the inquiry they can never ignore their duty to protect their clients. The inevitable result is a tendency to prolixity in the procedure of examining and cross-examining oral witnesses, which is controllable by the inquiring body only with great skill and judgment about the proper scope of the inquiry.

Critics among the public blame lawyers for bringing to an essentially inquisitorial process the familiar adversarial system of the ordinary courts of law. This is altogether too facile a conclusion. Few words are more misleading than "adversarial" as a description of a legal procedure, with its overtones of hostility, antagonism and confrontation. In reality the word simply connotes one of the two ways, familiar in civilised legal systems, of conducting the legal process. Under the adversarial system the tribunal sits to hear and determine the issues joined between the parties who have brought their dispnte forward for adjudication, and not to conduct an investigation of a specific topic.

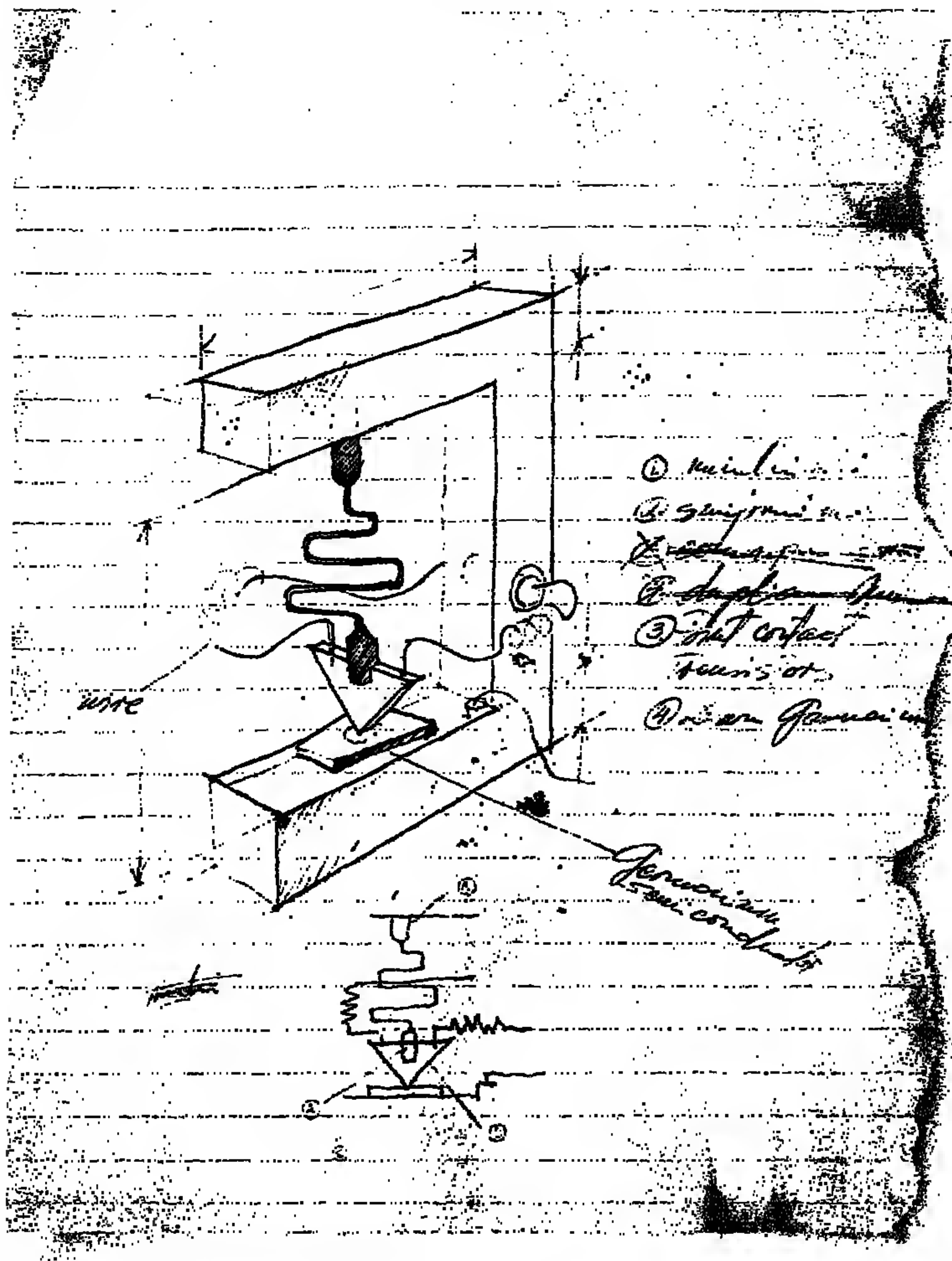
The inquisitorial approach requires the tribunal to define the issues and to call such witnesses as it thinks appropriate to elicit the truth. The tribunal is a direct participant in the fact-finding process. This procedure may remove or diminish the source of hostility that may be evoked by combatants in litigation where the judge adopts an Olympian aloofness. But recent public inquiries have been unable to dispel allegations and counter-allegations of blame against named individuals and organisations.

Given that there is a greater insistence on public accountability on the part of those exercising public functions, it is hardly surprising that those being called to account wish to exercise to the full their right to defend themselves publicly and comprehensively. That wish cannot be denied, at least not without some infringement of the right.

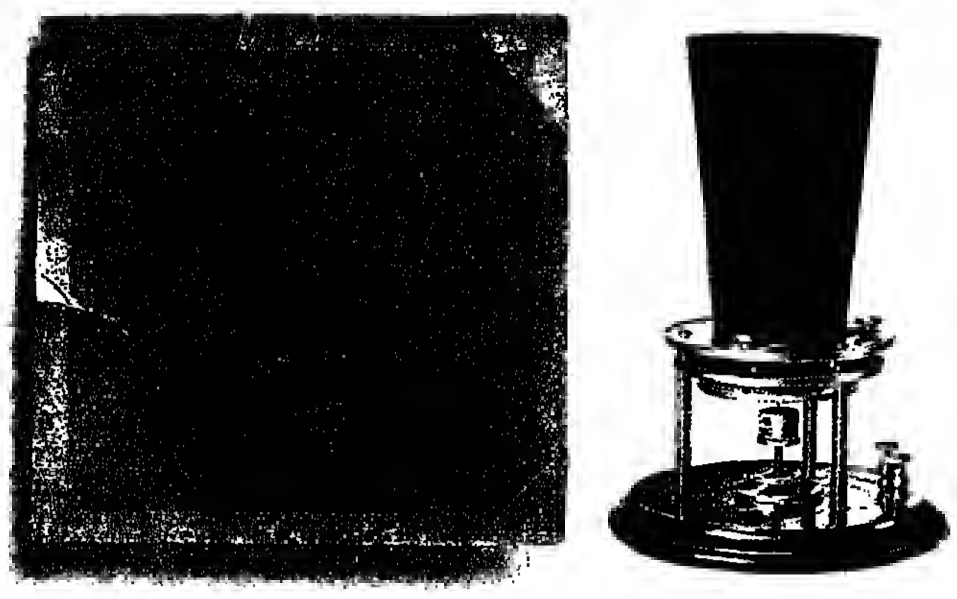
The tablets of stone in inquiry matters have been inscribed in the report of the Royal Commission on Tribunals of Inquiry, a report of 1966 under the chairmanship of Lord Justice (later Lord) Salmon to consider the workings of the Tribunals of Inquiry (Evidence) Act 1921. That Act was passed to provide a procedure for investigating allegations of improper behaviour by certain officials in connection with armaments contracts. It has been used since 1921 mainly to investigate similar allegations of misconduct by ministers, civil servants or other organs of government. Thus the leaking of budget secrets in 1936, the bribing of a junior minister in 1948 and the spying activities of Mr Vassall in 1962 were all investigated by 1921 Act tribunals.

The Act has been described as "a powerful locomotive running without rails", a reference both to the absence of procedural safeguards for persons liable to criticism and to the investigative powers the Act possesses.

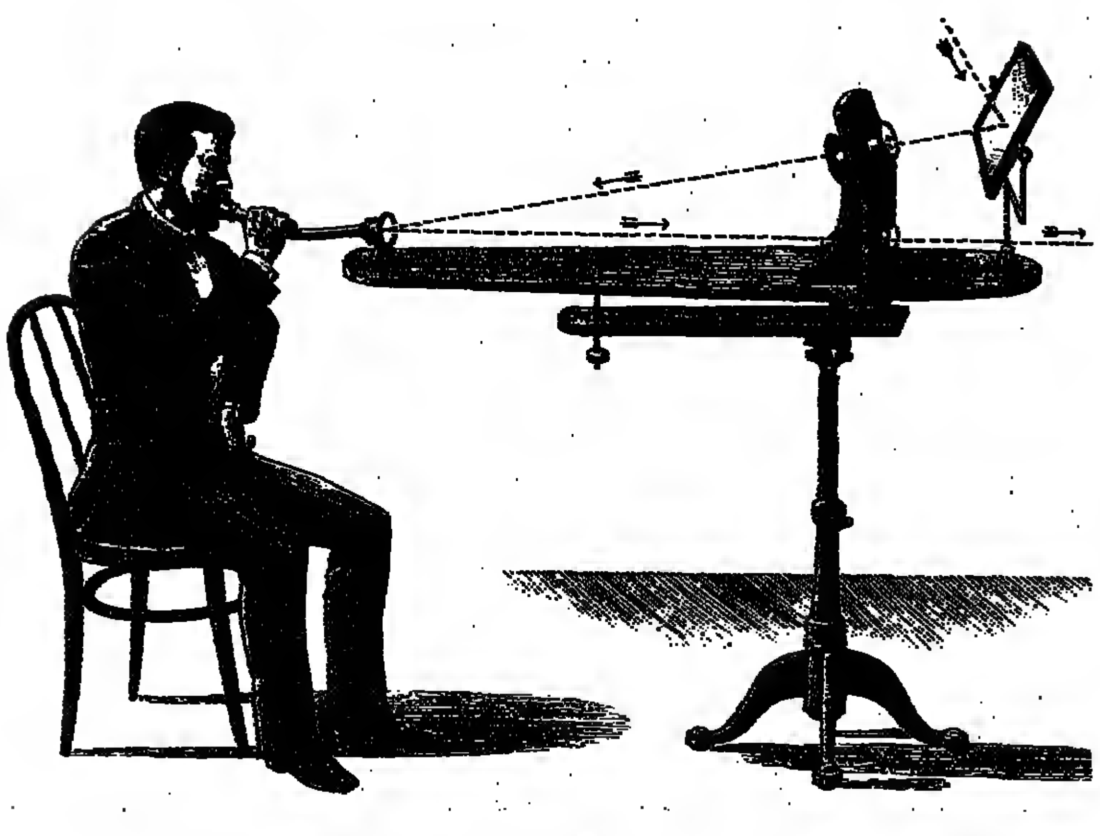
The Salmon Report of 1966 recommended a series of procedural safeguards that have largely been adopted by inquiring bodies set up other than under the 1921 Act. The Government in 1973 expressed its agreement with many of the Salmon proposals bot no legislation has been forthcoming largely because the 1921 Act has become obsolescent. Since the early 1960s the Act has been used only once, in 1983, in the Crown Agents inquiry. The time is ripe for an entirely fresh review of the procedures of all public inquiries.



THE DISCOVERY OF THE TRANSISTOR EFFECT AT AT&T BELL LABORATORIES IN 1947 CHANGED THE COURSE OF HISTORY. SUDDENLY MINIATURISATION WAS POSSIBLE AND THE AGE OF ELECTRONICS HAD BEGUN. IN THIS FIRST TRANSISTOR THE CONTACTS WERE MADE OF GOLD AND THE SEMICONDUCTOR WAS GERMANIUM.



MARCH 10TH, 1876. ALEXANDER GRAHAM BELL UTTERS THE FIRST ARTICULATE SENTENCE EVER TRANSMITTED OVER HIS NEW INVENTION, THE LIQUID PHONE. "MR. WATSON, COME HERE, I WANT YOU." AND THUS THE FIRST AT&T PATENT IS EARNED.



THE PRECURSOR OF FIBRE OPTICS FIRST SAW THE LIGHT IN 1880 WHEN ALEXANDER GRAHAM BELL WROTE OF HIS EXPERIMENTS WITH THE "PHOTOPHONE". "I HAVE HEARD A RAY OF THE SUN LAUGH, COUGH AND SING."

SCIENTISTS AT AT&T BELL LABORATORIES INVENTED THE FIRST ELECTRICAL DIGITAL COMPUTER IN 1939. ALMOST 50 YEARS LATER, THE 6386 MICROCOMPUTER IS ABLE TO SUPPORT AS MANY AS 32 USERS SIMULTANEOUSLY. A CONTEMPORARY COMPUTER INDUSTRY BREAKTHROUGH.

"Mr. Watson, come here," were the words that announced the invention of the telephone way back in 1876.

Unknowingly, they were also the words that announced the birth of an organisation that would ultimately be known as AT&T.

A few years and thousands of telephone poles later, the people of Los Angeles were able to talk directly to the people of Boston. The nascent AT&T was on the move.

In April 1927, a handful of New Yorkers glimpsed the future. AT&T Bell Laboratories, now the inheritors of Alexander Graham Bell's inventor's mantle, had developed a way to carry the first television image over telephone lines.

Then, a few years later, in 1939, the world's first electrical digital computer emerged from the same laboratory.

1947 saw a major breakthrough with three of our scientists inventing the transistor.

At the same time of course, they had no idea that this was the beginning of the microelectronics revolution. Each was later awarded the Nobel Prize.

In 1956, AT&T and its partners laid the first transatlantic telephone cable, and the world suddenly seemed a lot smaller.

The world's first satellite TV transmission was made possible in 1962 thanks to AT&T's Telstar satellite. And one of the first stations to receive Telstar's messages was built at Goonhilly that same year.

The UNIX® operating system was developed by AT&T in 1969 and has subsequently become an international computer operating standard.

The story continues in a similar vein until today. In fact, AT&T have earned a patent every working day for more than 60 years, most of which have contributed to improving the world's communication.

Communication is the heart of AT&T's business. And technology is our lifeblood. We see our job as connecting people to people, machines to machines, systems to systems, unhindered by geographic and technical barriers.

Today, AT&T has co-operative ventures with over 100 nations. We've been working with British Telecom, and its predecessors, for over 60 years.

Right now, the new transatlantic fibre optics cable is nearing completion, a result of an even stronger partnership between AT&T and the UK.

We're providing jobs at our switch development and transmission manufacturing plant in Malmesbury and our microelectronics design centre at Bracknell.

We intend to invest more in Britain, to serve our customers better.

If you'd like to know more about AT&T in Britain, please write to AT&T, Information Office, Norfolk House, 31 St. James's Square, London SW1 4JR.

AT&T

We invented the phone back in 1876, and we've been ringing the patent office ever since.

FINANCIAL TIMES SURVEY

Is President Mubarak moving fast enough to tackle Egypt's difficulties? Is he still his ultra-cautious self? The economic crisis is not as acute as in 1986, but more decisive action is needed, says **Andrew Gowers,** Middle East Editor, to solve the country's problems

The country is "on the road to serious reform": a Cairo street scene

Terry Kirk

EGYPT

The limits of gradualism

NEARLY 10 years after signing the historic Camp David accords with Israel and the US, Egypt is in a mood of uncertainty and introspection.

Gone is the overwhelming preoccupation with foreign affairs that characterised the Sadat years. At home, a steady increase in political freedoms under President Hosni Mubarak has been accompanied by what many commentators identify as a sense of drift and alienation.

Everything is overshadowed by the deep-seated crisis in Egypt's economy, and in particular by Mr Mubarak's balancing-act between demands from western creditor nations for reform and his own fears that acceding to them may cause e serious social and political upheaval.

Although the economic situation is clearly not as acute as it was in 1986, the big question echoing around Cairo is: will the gradualism inherent in the government's approach – both on the political and economic fronts – be sufficient in the long term to pull Egypt through? The answer, notwithstanding the country's legendary resilience, is not encouraging.

In a number of senses, Mr Mubarak, fresh from re-election to e second six-year presidential term last October, is to be congratulated for having got this far.

In foreign policy, he has quietly manoeuvred Egypt back into the Arab fold – with the resumption of diplomatic relations with Cairo sanctioned by last November's Amman summit – while making no concessions on his "cold peace" with Israel. In the face of recurrent tensions with Washington, he has succeeded in maintaining Egypt's key alliance with the US, which yields more than $2bn a year in economic and military assistance, while moving to patch up ties with the Soviet Union.

In domestic politics, his touch has become surer as his international confidence has grown. Although the President has found it convenient periodically to renew Egypt's long-standing state of emergency and the country is far from resembling a Third World democracy, official tolerance of dissent has undoubtedly increased. The press, though still routinely interfered with, is freer; the mainstream opposition is less harassed.

The general elections of April 1987, preceded by an unusual show of respect for legal procedure and probably marked by less rigging than hitherto, increased the role of the opposition, and in particular of the Moslem Brotherhood, which though still nominally banned now commands 36 parliamentary seats in alliance with the Labour and Liberal parties.

Even on the economy, some progress has been made since the shock year of 1986, when Egypt found all its sources of hard currency – oil, tourism, workers' remittances and exports – in decline at once.

The signature of a letter of intent with the International Monetary Fund in February 1987 and approval of a $325m standby arrangement the following May gave the government a little breathing space. It was able to reschedule some of its debts through the Paris Club. It moved to simplify its highly complex and bureaucratic exchange rate system. It has also sought to contain its massive subsidy bill by raising the prices of such items as petrol and electricity, though not nearly by as much as the creditor community would like.

Although the IMF agreement has since collapsed, these steps lead some sympathetic observers to conclude that Mr Mubarak, in his pragmatic way, has embarked on a serious effort to change Egypt's ways by building a genuine political consensus behind economic reform. "After a long period of confusion, ambiguity and attempts to evade the situation, Egypt is on the road to serious reform," says Prof Ali Dessouki of Cairo University.

"Mubarak is creating a different kind of Egyptian presidency," agrees a senior western diplomat. "He has given the assembly a more legitimate mandate to endorse his position. And since the need for an IMF agreement became accepted as essential, he has been working to create a consensus on the IMF reforms."

Yet there are also plenty of more sceptical voices – both foreign and Egyptian – arguing that President Mubarak has done no more than make a cautious start in defining Egypt's real problems.

Egyptian pundits complain that the consensus-building style is actually an excuse for indecision, and that Mr Mubarak – though his position is unchallenged and his personal integrity is not in question – more often finds himself arbitrating between feuding factions and vested interests than giving a firm lead. The government's hesitant handling of the growth of unregulated Islamic investment companies is seen as a typical example. The President has also been criticised for not moving decisively enough to combat corruption, which remains rife in the upper echelons of the bureaucracy.

"The President has gained confidence in his second term, but he's still his old ultra-cautious self," said one Egyptian elder statesman. Or as Anthony McDermott puts it in a recent book* on contemporary Egypt, "Mubarak runs the risk of being unable to provide either firm leadership or fully participatory democracy."

The government and the ruling National Democratic Party – itself more a vehicle for the existing elite rather than a genuine grassroots organisation – seem as remote as ever from the people. The authorised opposition, though vociferous and frequently troublesome, is scarcely any closer in touch, and popular apathy was illustrated by the low turnout in last year's elections.

With the left in self-confessed disarray, most experts believe the only real opposition is provided by the Islamic trend, which – although deeply divided between the mainstream Moslem Brotherhood and extremist fringe groups – has become a potent force with its own social and economic infrastructure. At present, however, this would appear to be more of a protest movement – and one that some observers believe has peaked, albeit at a high level – than a genuine political alternative.

"In Egypt today, there is e hiatus and people are looking for a new political structure," said Mr Tahsin Bashir, a long-serving Egyptian diplomat. "Nobody believes that the government or politicians of the left and right can solve the problems. It's not a big challenge now, but it is causing a secular erosion of credibility over time."

Mr Ismail Sabry Abdullah, a leading leftist politician, says Islam is continuing to fill the vacuum left by the lack of motivating ideas elsewhere in Egyptian politics.

Nevertheless, despite sporadic terrorist acts carried out in the name of extremist Islamic groups, Egyptian society still seems remarkably stable. But the country's economic predicament provides a fertile breeding-ground for discontent – and is likely to continue doing so for the foreseeable future.

Unemployment – officially 2m but certainly much higher – is on the rise. Inflation rages at between 25 and 30 per cent. Life for ordinary Egyptians, increasing in number at the alarming rate of 1m every eight months, is becoming harder all the time.

The minority of educated Egyptians is aware that the government is in no position to provide relief. With oil prices weak, Egyptian workers returning from the Gulf and foreign aid unlikely to increase substantially, Egypt is not about to be rescued by some *deus ex machina* as it was in the 1970s. The only rays of hope this year lie in a sharp increase in exports and in tourism.

Despite the Paris Club rescheduling, the country is still burdened with a total foreign debt of up to $50bn. Its balance of payments is under severe pressure, with the inflow of foreign funds reduced to a trickle. Industry, both private and public sector, is suffering from e lack of new investment and from shortages of raw materials, and remains trammelled by restrictive labour laws and price controls.

The government is struggling to contain its budget deficit, without obvious success: its failure to meet a deficit target of 13 per cent of gross domestic product in the fiscal year just coming to an end has already sent Egyptian and IMF negotiators scurrying back to the drawing board. Spiralling wages in Egypt's bloated bureaucracy end the obstinately large subsidy bill for food and energy stand in their way. Meanwhile, services such as health and education are deteriorating steadily.

In other words, as Egyptian academic Mourad Wahba points out in a recent Chatham House essay collection#, the old Nasserist social compact between government and people – under which, for example, the authorities theoretically guarantee civil service jobs to all graduates – is well and truly defunct. The difficulty for the politicians lies in admitting this to the people in so many words, and in finding something plausible to put in its place.

For all the lip-service currently paid to encouraging the private sector, it is widely recognised that the "open door" *(infitah)* policy initiated by President Sadat in the 1970s has failed to yield much genuinely productive investment. Some 70 per cent of gross domestic product remains in the hands of the public sector.

On the other hand, the ever-present fear – regularly rehearsed in front of western aid

Continued on Page 4

CONTENTS

KEY FACTS

Population	51.2m
GDP	E£44bn
per capita	E£859
Trade balance	-$5,259m
Exports	$2,741m
Imports	-$8,000m
Services balance	$3,000m
Current account balance	-$1,300m
Total external debt	$44.1bn
US aid (1988)	$2,290m
Average consumer price increase	25 per cent

It is not clear if the economy has yet emerged from intensive care

Policymakers under pressure

"WE ARE caught," said the senior Egyptian economic adviser, "between a rock and a hard place. We are concerned about growth, but we are also faced with severe balance of payments constraints."

Therein lies the central problem facing Egyptian policymakers as they grapple with an unmanageable $44m foreign debt, a sluggish industrial sector, lower oil prices, an increase in the cost of commodity imports because of higher world prices, a squeeze on new credit, inflation, a worrying rise in unemployment and pressures from international donors for structural reform.

All this is testing to the limit Egypt's almost uncanny ability to balance its own political interests with the demands of institutions such as the International Monetary Fund and World Bank who are reluctant nursemaids to a sometimes difficult patient.

President Mubarak once declared that the Egyptian economy had entered the intensive care unit. It is not clear that it has yet emerged, in spite of an IMF reform programme agreed in May 1987 that cleared the way for a rescheduling of some $8bn of government-guaranteed debt.

A Paris Club rescheduling provided Egypt with momentary breathing space. One hundred per cent of arrears were rescheduled plus debt payments falling due between January 1987 and June 1988. This process has not, however, provided Egypt with any significant new avenues of funding.

Balance of payments trends for the fiscal year ending June 1988 show an improvement in the current account to a deficit of less than $1bn compared with a figure of about $1.3bn in 1986-87. The improvement is due in part to a continued squeeze on imports, but also to exceptionally strong growth in invisibles such as earnings from tourism and transfers of workers' remittances through the banking system.

Earnings from tourism amounted to about $1.5bn in the first nine months of fiscal 1987-88, according to Dr Fouad Sultan, the Tourism Minister. This represents a 30-40 per cent increase on last year.

Remittances of Egyptian workers through the banking system could reach $4bn by the end of the financial year compared with a figure of about $2.5bn for 1986-87. This surge reflects in part reforms of the exchange rate in May 1987 that made it more attractive for expatriates to remit funds through official channels.

Suez canal tolls have shown a modest increase in the first five months of this year over the same period of last year. Oil revenues, however, are down because of the softer oil market and lower production. Earnings from oil in the absence of a strong rebound in prices are projected to reach $1-1.2bn in 1988 compared with $1.5bn in calendar 1987.

A growth area has been exports of such items as textiles and agricultural products. This has registered an increase of some 30 per cent this financial year and further improvement is predicted.

Egypt, however, faces a financing shortfall of the order of $3bn to $4bn annually. Part of this is covered by rescheduling. The balance of about $1.5bn is becoming increasingly difficult to raise as sources of new credit and aid money are squeezed.

Arrears are building up on interest payments due on debts

Dr Atef Sedki, Prime Minister

rescheduled under the Paris Club arrangements of May 1987. Bankers report that arrears may have increased by as much as $500m in the interim.

Constant pressure on Egypt's balance of payments is seriously limiting the government's room for manoeuvre as it seeks to restrain imports while providing funds necessary to industry for raw materials, new equipment and spare parts.

Government officials recognise dangers of stagflation for the Egyptian economy which is being buffeted by strong pressures on prices and negative growth. "The Egyptian economy has been largely stagnant for the past three years," commented a recent US embassy economic trends report.

"There is strong evidence," it added, "that real gross domestic product fell in financial year 1986-87 after having increased only marginally in each of the two previous years. This is a risky trend in a country that is experiencing population growth in the range of 2.7-3.0 per annum."

According to government estimates, gross investment fell from 31 per cent of GDP in fiscal year 1981-82 to 20 per cent in 1985-86, and probably less in 1986-87. Especially worrying for the authorities is that new private sector investment looks like being way down on targets set in the latest five-year plan. Tourism is providing the one bright spot in this regard.

Some economists argue that estimates of real rates of growth in the Egyptian economy will always be flawed because of the country's large unofficial sector, or black economy. This sector, which includes thousands of small backyard enterprises, may contribute as much as 25 per cent of GNP.

The surprising resilience of the Egyptian economy is almost certainly due in part to the activities of small unregulated entrepreneurs. Unemployment would be a much more serious problem were it not for the black economy.

Joblessness – Egypt needs to create some 400,000 jobs every year – is, nevertheless, one of the issues that worries the government, though it insists it is holding to its 5.6 per cent growth target this year. A recent International Labour Organisation estimate put the rate of unemployment at about 20 per cent of an official labour force (almost certainly understated in a country of 52m where child labour is widely used) of 13m.

Increasing unemployment – which is partly due to a depression in the construction sector, inflation, balance of payments problems and lack of growth – is hardly creating the most auspicious climate for Egypt's faltering discussions with the IMF on a new and strengthened reform programme.

Government ministers say, however, that Egypt has no choice but to press ahead with structural reforms. The debate, as always, is about the pace of reform. Egyptian officials argue that significant progress has been made in reforms of the exchange rate and prices since an IMF standby programme was agreed last May.

IMF and World Bank officials say change has come too slowly. Egypt has certainly not been able to meet the liberal performance targets set by the Fund in its 1987 programme which is now defunct. About half of a SDR 250m IMF credit was drawn down before the programme ran into difficulties.

Likewise, Egypt has not yet been able to satisfy World Bank demands that it increase energy prices by an average of 30-40 per cent as part of an overall programme of raising tariffs to world parity in five years. The Bank has been holding back the disbursement of between $800m-1.5bn in infrastructure loans pending pricing reforms in energy and agriculture.

These are funds that are urgently needed if Egypt is to embark on a crash programme to increase its thermal power generating capacity to make up for the shortfall in hydropower generated by the Aswan High Dam which has been affected by persistent drought in the African hinterland.

Working at capacity, turbines in the High Dam produce more than 20 per cent of Egypt's power supply. They are now operating at about 60 per cent, and may have to be shut down altogether by next year unless there are above-average rains in the catchments of the Blue and White Niles.

The IMF and Egypt, in a continuing deadly duet, have been focusing on three areas: the budget deficit, price and exchange rate reforms and credit policy. The Fund has been particularly exercised about the deficit which reached a high of about 23 per cent of GDP in 1982-83.

Egypt's target for 1987-88, agreed with the Fund, is 13 per cent of GDP. But Egyptian officials say that the figure will be closer to 16 or 17 per cent. Among reasons advanced for the higher than projected deficit was lower than anticipated customs duties due to the squeeze on imports.

IMF officials say, however, this and other factors advanced by the government for Egypt's inability to hold the deficit to the agreed figure are not an altogether satisfactory explanation. An estimated 25 per cent increase in public sector wages and salaries in the past year is seen as perhaps the major cause of the larger deficit.

Interest on domestic government debt continues to be a big burden on the budget. Lower than expected corporate and personal income tax revenues also contributed to the government's budget problems.

Western officials point out that Egypt would have been closer to its 13 per cent of GDP target if it had introduced cigarette and petrol price increases sooner. As it is, the recent increases made little impact on the budget this year.

Egyptian officials argue that the IMF and the World Bank should work closely in providing an adequately funded structural reform programme for Egypt which encourages growth and helps it to get rid of a huge and unwieldy subsidy system that creates massive distortions and anomalies in the economy.

A local economist said the IMF was "very myopic as far as growth policies are concerned" whereas the World Bank was "worried about growth." What we have to do, he said, is "marry the loose conditionality of the Bank with the tight conditionality structure of the IMF which is inimical to growth ...you have to find a middle way."

That attitude is almost certainly sound from Egypt's standpoint. But the question remains whether an unwieldy government can move fast enough to take advantage of the present opportunities to speed up the reform process. If it does not, things can only get worse.

Tony Walker

Privatisation

Traffic lights switch to amber

WHEN THE Egyptian-born al Fayed brothers, owners of the Ritz and Harrods, tried to buy a run-down hotel on the waterfront in Alexandria recently, it provoked a near-crisis in the government that required the intervention of President Mubarak to calm things down.

A proposal to sell the decaying government-owned San Stefano hotel and the valuable property on which it is located to foreign interests sparked angry scenes in parliament, a fierce debate in the local press and calls for the resignation of the Tourism Minister, whose proposal it was that the hotel be sold.

Members of the Egyptian elite, including figures close to the President unlikely to stay at the three-star hotel, seemed to regard proposals to "privatise" the San Stefano as a betrayal of the national heritage. It was almost as if the government was proposing to sell Tutankhamun's gold funerary mask.

The episode was highly revealing of sometimes contradictory attitudes inside the government to the role of the private sector and more specifically the issue of privatisation. In a country heavily dominated by large and often inefficient public sector units, a quiet campaign has been in progress for some years to achieve a better balance between public and private ownership.

Egyptian governments, however, have done little more than pay lip-service to the need to give more encouragement to private enterprise. Bureaucratic constraints, red tape, lack of investment incentives, pricing problems and a number of other difficulties in a highly centralised system that evolved in the socialist era of the late President Gamal Abdel Nasser provided little incentive for entrepreneurs to invest in Egypt.

President Anwar Sadat's open door (infitah) policy, introduced in 1974, encouraged a flood of technology imports, but new private investment in the non-oil sector has been disappointing.

The balance between public and private output remains at about 70:30 in favour of the public sector, although some economists would argue that the large "black" or unofficial economy not covered by official statistics means the gap between the two is closer to 50:50.

In the latest five-year plan (1987-88 to 1991-92), the government wants to see 33.6 per cent of new industrial investment of a projected E£46.5bn ($20bn) directed towards the private sector compared with 23 per cent of investment in the last five years. This is a strictly notional figure and unless Egypt presses ahead more vigorously with reforms of such areas as the heavily regulated pricing system it is doubtful that the private sector will respond to that target.

Debate about the need to give real encouragement to the private sector and about privatisation itself was sharpened by the entry to the cabinet in late-1985 of former investment banker Dr Fouad Sultan as Minister of Tourism and Civil Aviation. Dr Sultan is the chief government proponent of shifting the balance of the Egyptian economy from public to private enterprise.

In spite of opposition from neo-Nasserite elements in the government, he has made significant progress in his own area of responsibility. He has privatised the management of almost all the 18 publicly-owned hotels under the control of his ministry, including the historic Shepheard's in Cairo and Cataracts at Aswan. As part of these management agreements, local and foreign investors have undertaken to commit substantial funds to refurbishing these decrepit hotels.

Entrenched interests make the task of reforming inefficient state enterprises a difficult one

The Tourism Minister has had less success with EgyptAir, Egypt's troubled national carrier. He has not yet gained approval for measures that would revamp the management structure. Dr Sultan proposed that the board of directors be separated from the day-to-day running of the airline and that more scope be given to professional managers.

He would also like to see EgyptAir removed from rigid government controls so that it could make its own investment decisions from its own resources and not be dependent on the central budget. Like most other public sector entities, EgyptAir suffers from a critical lack of funds for new investment.

Dr Sultan has learned, perhaps the hard way, that powerful entrenched interests – control of EgyptAir, for example, has been the preserve of senior retired military figures – make the task of reforming inefficient state enterprises a difficult one.

Conflicting signals from the President himself have not always helped the cause of those like Dr Sultan who are in the vanguard of reform. Though Mr Mubarak speaks of the need to encourage the private sector, he is also given to doctrinaire statements about the public sector. "The public sector," he declared last year during an intense phase of the debate, "is the only guarantee for the poor people of Egypt."

The weakness of Egypt's capital markets is another impediment to new private sector investment and ultimately to privatisation. Trading on Egypt's stock market, where the total volume reached a modest E£400m in 1987, is still very thin in spite of recent efforts to encourage a revival.

Egyptians, whose traditional avenues of investment have been in real estate or simply in interest-bearing bank deposits (Egyptian banks are highly liquid) show little inclination to risk their capital in the stock exchange. The nationalisations and sequestrations of the Nasser period in the early 1960s have left a legacy of mistrust.

Dr Sultan believes that steps he has taken in the tourism sector towards liberalising management and divesting the government of loss-making enterprises should be regarded as a model for the rest of the public sector, but he is the first to admit that progress is relatively slow.

"If we examine the British experience," he said recently, "we find that they also began with very modest goals – mainly confined to the tourist sector...in the beginning, in 1979, the goal was to float about £500m annually. Now they are realising something like £5bn annually."

Dr Sultan added that he could not see a way of increasing efficiency and productivity in Egypt except through a process of privatisation.

Dr Adel Gazarin, chairman of the Egyptian Federation of Industries, believes that the way to improve the efficiency of public sector entities involved in a whole range of activities from food production to steelmaking lies in liberalising management and freeing it from government controls as a first step. He is not persuaded that a comprehensive process of privatisation is either possible or desirable in the Egyptian context.

Dr Gazarin, who was for many years chairman of the public sector el Nasr Automotive company, said that Egypt should "proceed gradually, by privatising management, from the handicaps and impediments it is facing (under rigid bureaucratic regulation). If the public sector is properly managed it can succeed. Why not?"

He argues that all companies, whether public or private sector, should operate according to the same set of rules, and that, without exception, they should be profit-oriented, and not subject to price controls capriciously applied. He gave the example of his own difficulties at al Nasr when the government interfered in the price of cars.

"We were doing very well at Nasr Automotive for a while," he recalled. "Then the government said we must fix the price of the cars; the price was fixed by ministerial decree. Immediately we started suffering losses: component prices and salaries were increasing, and the government refused to increase the price of cars for political reasons."

Dr Gazarin identified another problem associated with streamlining the public sector – overmanning. Egypt's labour laws make it difficult, if not impossible, to lay off employees. "Suppose we privatise these companies and start firing the excess workers. What will happen?" he asked. "A revolution. So there are political and social factors which force us to keep the public sector."

Mr Abdel Wahab, the Minister of Industry who is responsible for much of Egypt's creaking public sector, said progress – albeit slow – was being made in turning loss-making companies into profitable enterprises. In 1985, there were 40 loss-makers among the 120 companies under his control. In 1987, the figure had been reduced to 28.

Mr Wahab identified lack of hard currency for imports of raw materials, pricing restrictions and shortage of funds for new investment as the main constraints on a more efficient public sector. He was pressing the government to reduce restrictions on public enterprises and to help provide additional resources.

Continued on Page 3

Defence

Catching up is hard

"EGYPT'S BALANCE of payments crisis has changed Egypt's need for military industrialisation and improved self-sufficiency from a long-term requirement into an urgent need for immediate and dramatic action."

Those words from a special Egyptian government report, circulated to American legislators late in 1987 to press the case for additional funding, neatly sum up the dilemma facing Egypt's military, which is struggling to sustain its modernisation drive with diminishing financial resources in real terms.

"Improved defence industrialisation is the only solution to meeting Egypt's long-term aid needs, and to eliminating future military debt problems," the report states. "Egypt now lags 10-15 years behind nations with advanced defence industries such as Israel."

Egypt's efforts to catch up have been constrained by lack of funds, a relatively under-developed technological base and restrictions on transfer of western technology. Egypt's almost total reliance on the Soviet Union from the late 1950s until the early 1970s as a supplier of military equipment limited its access to western know-how.

Defence experts report that Egypt has made steady, rather than spectacular, progress recently towards achieving self-sufficiency in the production of artillery pieces, anti-tank missiles and some telecommunications equipment. Egypt lags, however, in hi-tech areas such as electronics.

Egypt's hopes for a boost to its defence industries lie in efforts to persuade former partners in the Arab Organisation for Industrialisation (AOI) to resume funding, suspended after Cairo signed its peace treaty with Israel in 1979.

Egyptian officials have been urging the three Gulf states – Saudi Arabia, Qatar and the United Arab Emirates – which contributed to AOI's $1bn capital to reactivate their support.

Egypt's interest in reviving AOI was reflected in the recent appointment of Lieutenant-General Ibrahim Orabi, the former Chief of Staff of the Armed Forces, as its new chairman. In a discussion with the foreign press in March, he said the AOI was "capable of doing a lot not only for Egypt and the other partners but for all the Arab world."

When the Gulf states pulled out of AOI their capital was frozen. According to General Orabi some $662m, including interest, is being held in European banks pending a decision on AOI's future.

Among recent positive developments for Egypt's arms industry was the signing of a memorandum of understanding in late March with the US which gives Cairo special status as a non-Nato ally. This allows Egypt access to more sophisticated defence equipment and gives it special rights to bid on US defence contracts.

Dr Abdel Halim Abu Ghazala, Defence Minister

US and Egyptian officials have formed a working group to examine areas of possible co-operation. An initial $40m was allocated in the fiscal 1988 military assistance programme to help finance military production.

Egypt last year commissioned a Virginia-based consultancy to advise on items that it could manufacture for the American defence industry. The US-Egyptian working group is also looking at a range of more sophisticated items that might now become available to Egypt as a non-Nato ally.

Egypt's defence industry is watching with interest the success Israel's military industries have been having recently in gaining a share of the lucrative US market under a non-Nato memorandum of understanding.

Field Marshal Abdel Halim Abu Ghazala, the powerful Defence Minister, made it clear in an interview in May with the weekly magazine al Mussawar that Egypt was anxious to make much greater use of unused capacity in its arms factories.

"Our factories," he said, "can meet needs far greater than Egypt's alone because what is earmarked in the Defence Ministry budget for purchases from the war factories is much less than the real production capacity."

Field Marshal Ghazala has been the driving force behind Egypt's efforts to acquire the ability to assemble the General Dynamic M-1A1 battle tank. He expects that Egypt will gradually manufacture more of the components of the front-line tank, and that markets for the sophisticated vehicle can be developed in the Middle East and Africa.

Production is expected to begin by the early 1990s at a new factory under construction on the outskirts of Cairo. "The target is set up on the basis of our capacity to produce 120 tanks a year in the first stage," Field Marshal Ghazala said. "We will be able to manufacture 550 tanks in five years...all of which represents the armed forces' needs."

The Field Marshal said Egypt's military industries were already working on establishing a production line to manufacture "strategic steel" for the M-1A1. It would take two years for a steel-making production line to be set up. The Egyptian report circulated to Congressmen identified three main phases in Egypt's efforts to increase self-reliance. These are to increase maintenance capabilities and readiness, rebuild and improve existing equipment and co-produce and manufacture new equipment.

The report says that Egypt has made good progress in the first phase, but "needs to go much further to carry out Phase Two and Phase Three of its self-sufficiency plan, and to do so during the next few years."

It says Egypt must also expand its military industries to acquire a domestic capability to modify US-made equipment and produce follow-on support items. Egypt, it adds, cannot currently fund the US-recommended levels of follow-on support out of its request for grant aid (that amounts to $1.3bn a year).

A study of US military aid for fiscal 1987 explains Egypt's concern about the high cost of maintaining its sophisticated US-supplied equipment, such as 80 F-16 fighter-bombers. Of the $1.5bn disbursed in the year to September 30, about $1bn went on "follow-on" support.

The report to Congress stated that Egypt could fund only a fraction of the follow-on support (includes maintenance and the provision of spare parts) for its US-supplied military equipment through fiscal 1992.

"All defence forces must make compromises in readiness and in providing follow-on support," the report concluded. "Egypt, however, cannot sustain even its reduced force structure into the 1990s in the face of such problems, and must find a long-term alternative to asking for more FMS (Foreign Military Sales) aid. Egypt must provide such support by expanding the production of its domestic industries or by using the sales from such industries to provide some form of offset."

Tony Walker

Tourism

A brighter outlook

DR FOUAD SULTAN, the Minister for Tourism and Civil Aviation, has had a somewhat bumpy ride since he entered the cabinet almost three years ago. His unabashed advocacy of the need to liberalise the management of unprofitable public sector companies under his control has not always made him popular with powerful elements in Egypt.

A former investment banker with a reputation for risk-taking, he is perhaps the least conventional member of an Egyptian cabinet that some critics would say has more than its share of cautious technocrats. That he has managed thus far to navigate through the turbulence generated by his reformist ideas is partly attributable to persistence and to luck.

Dr Sultan may not welcome the observation, but his continuing survival in the cabinet as "Minister for Private Enterprise" is seen by local businessmen and foreign investors as an important test of the credibility of government statements about encouraging the private sector.

A precise man, given to talking quickly and emphatically as if he is always in a hurry, Dr Sultan, 57, endured a difficult start to his ministerial career in late-1985. That coincided with a rash of Middle East-related terrorism and police riots in Egypt itself that reduced the tourist flow to a trickle. There was speculation that he would not survive the appointment of a new Prime Minister in late 1986.

Good fortune, however, took a hand. Tourism rebounded towards the end of 1986. Dr Sultan's efforts to privatise the management of government-owned hotels began to show results. A flash flood of tourist dollars into the banking system after the May 1987 exchange rate reforms that killed the black market further enhanced his position and gave credibility to his ideas.

By early 1988, revenues from tourism had surpassed oil as Egypt's main foreign exchange earner, with the exception of remittances from Egyptian expatriates. Direct earnings from tourism in 1987 reached $2bn.

In the first four months of 1988, there were 24 per cent more tourists than in the same period last year. The Minister expects 2m tourists to visit Egypt this year, lifting direct tourism receipts to at least $2.5bn. This compares with anticipated earnings from oil of about $1.2bn, Suez Canal dues of some $1bn and workers' remittances of $4bn.

Dr Sultan says that advance hotel bookings for the year are very strong, particularly from Arab states such as Saudi Arabia. Additional flights have been planned from the Gulf during the peak July-August period.

Hotel occupancy rates of 80 per cent for 1987 have stimulated investor interest in new projects at tourist destinations such as the Red Sea coast, Luxor and Aswan. There has also been a surge in requests to construct "floating hotels" for the Nile. Applications for permits indicate that numbers of these facilities would double in the next few years from the existing 80.

Big regional investors such as an Algerian group are pressing ahead with a $120m development on a 1.2m square metre site at Hurghada on the Red Sea, says Dr Sultan. An Abu Dhabi group is investing $50m in small to medium-size tourist villages, also on the Red Sea.

The government is in the process of finalising the sale of the Sheraton Hotel in Hurghada to a Kuwaiti group which would pay E£22m for the 120-room hotel, and had pledged to invest an additional E£30m in modernising and extending it to 200 rooms.

Dr Sultan says his other priority is to revitalise EgyptAir, which he describes as an "ideal case for privatisation." But he adds that such a step requires a political decision from the government. This is not yet in prospect.

In the meantime, he is helping EgyptAir to modernise its fleet and improve its efficiency. The other strand of Dr Sultan's civil aviation policy is to encourage competition by creating possibilities for private Egyptian-run airlines to enter the field.

Egypt is linked to 96 countries by bilateral civil aviation agreements and EgyptAir presently serves some 50 of these routes. According to Dr Sultan, the opportunity is there for private entreprenaurs to fly some of these routes provided that strict safety and maintenance criteria are met in the operations of any new airline.

Because of the tourist boom and growing numbers of Egyptians making the pilgrimage to Mecca, the EgyptAir fleet has been unable to cope with peak demand recently. But now, says Dr Sultan, two Boeing 747s have been purchased for a total of $225m to help cope with the new traffic.

EgyptAir is also in discussions with Boeing about the purchase of seven new 737s. Another alternative is the European Airbus 325. The Minister says the purchases of new aircraft are part of an "aggressive plan" to improve fleet efficiency.

He admits that allowing competition on domestic routes is more complicated. But there was no reason why private carriers should not operate "non-traditional" routes between centres such as Alexandria and Luxor. He adds that one of the main factors behind Egypt's tourist boom was the decision to "open the skies" to charterers, mainly from Europe.

Tony Walker

Tony Walker looks at the problems of the banking sector

Credit standing slips badly

WHEN EXCHANGE rate reforms were introduced in May 1987, in an effort to curb a rampant black market, government officials forecast a dramatic improvement in the flow of foreign exchange through the banking system.

A year later, these officials have been proved partly correct, although available foreign exchange still falls well short of requirements. Official statistics suggest that banks' hard currency receipts have been averaging more than $10m a day.

This is a vast improvement on the approximately $200,000 a day that was flowing into the banking system before the reforms which brought the commercial bank rate more or less into line with that available on the black market.

There is not much evidence, however, that the new system has added significantly to the pool of foreign exchange that would have entered Egypt in any case. Almost all the additional funds passing through official channels would have been traded previously on the black market. This includes remittances from the 2m-3m Egyptians abroad and tourist spending.

In practice, the new system has tended to favour public sector importers who had great difficulty before in securing hard currency from the banking system. These public sector companies have benefited from the fact that they deal with public sector banks that have extensive branch networks and therefore have been relatively successful in gathering foreign exchange.

The private sector has tended to find it more difficult to secure hard currency, although circumstances have eased recently with a regrowth of a more active unofficial or "own exchange market" as a source of funds to open letters of credit.

Most banks have performed better this year than last, but the picture is by no means consistent. A continuing recession, particularly in the construction industry, and an accumulation of doubtful loans to the private sector which has been hit by the depreciation of the Egyptian pound has curtailed profitability.

Banque Misr, perhaps the most commercially aggressive of the "big four" public sector commercial banks (the others are National Bank of Egypt, Banque du Caire and Bank of Alexandria) which dominate the banking system, expects profits this year to be much the same as last year's E£35.8m ($15.5m).

Mr Mohammed Hafez, a vice-chairman of Banque Misr, confirmed that the access of public sector companies to foreign exchange had increased sharply this year. He estimated that there had been a fourfold increase in the volume of letters of credit opened for the public sector by commercial banks.

Joint venture banks are continuing to face difficulties in a depressed business environment, although there have been notable exceptions. Egyptian American Bank (EAB), in which American Express has a 49 per cent stake, expects profitability to match last year's figure of E£21.7m which marked a 114 per cent increase on the year before.

EAB attributes its good showing to its close links with companies engaged in tourism and export. Both sectors have shown strong growth in the past year.

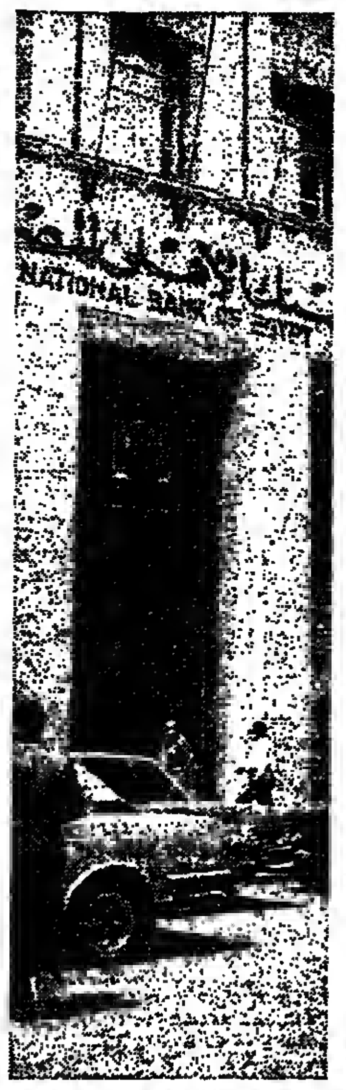
Foreign currency branches of international banks continue to be burdened by a big backlog of private sector debt. Last year's exchange rate reforms which severely curtailed the operations of the "own exchange market" meant that private businessmen were unable to secure funds to repay past obligations.

This compounded the problem of private sector hard currency debt, estimated to total about $3bn. The 50-60 per cent depreciation of the Egyptian pound between 1984 and 1987 was a major cause of private sector indebtedness among businesses reliant on imports.

Foreign currency branches, which are not authorised to trade in local currency, have had little scope for trading their way out of the difficulties caused by the private sector debt burden.

A number of these banks, such as Lloyds of the UK and Citibank, have been forced to reduce staff and close branches. Lloyds has cut staff by about 50 per cent in the past year. Citibank is in much the same position.

Requests by several offshore banks to be allowed to convert their operations to joint ventures which would entitle them to trade in local currency have not been granted by the authorities who say that Egypt is already in danger of being "over-banked."



One of the "big four" banks

Foreign currency branches like Lloyds in an effort to broaden their activities have been permitted to open local currency "windows" under the auspices of a local bank authorised to deal in Egyptian pounds, but managers report these arrangements are barely profitable.

The government has been reluctant to agree to an orderly rescheduling of non-government commercial debt through the London Club, but this may well turn out to be the only solution unless the Egyptians can persuade the banks to agree to an informal rescheduling or some other scheme that would allow the debt to be discounted.

Western bankers report that Egypt's creditworthiness is continuing to suffer because of the seemingly intractable private debt problem. "I think they're getting the message that their credit standing is slipping badly around the world," said one banker. "The amount of credit available to the banking system externally has gone down dramatically in the past 18 months."

There is no question that a drying up of various categories of credit is presenting Egypt with serious problems in its efforts to finance imports. Canada, for example, is no longer prepared to sell wheat on credit. Australia is reviewing arrangements under which it supplies on three-year credit terms in view of the large arrears that have built up.

In February, the central bank issued a notice saying that 10 per cent of foreign exchange coming in to the commercial bank pool each month could be devoted to paying private sector debts incurred after last year's exchange rate reforms. In practice, the authorities have been slow in approving the allocation of these funds for debt payments, and in any case, bankers say, they are hardly sufficient to cover interest on the debt.

Egyptian banks continue to be highly liquid, partly reflecting the lack of alternative investment opportunities. Total deposits at the end of the September quarter – the latest central bank figures available – had reached E£38.6bn, of which E£20.1bn was in local currency. Lending accounted for just more than 60 per cent of deposits, or a figure of E£20.2bn. Total loans remained more or less steady compared with the year before.

Total assets of the commercial banks reached E£49.9bn. This was about E£4bn more or up about 8.7 per cent over the figure for the end of financial year to June. Much of the increase was accounted for by a revaluation of dollar assets after the May exchange rate reform which resulted in a 60 per cent devaluation of the Egyptian pound.

Fairly rigorous attempts were made to apply the credit ceilings in the early to middle part of last year, bankers report, but these have been relaxed recently. This is assumed to be because the government is concerned about lack of economic growth.

Very rapid growth in the money supply throughout the 1980s is blamed for present worrying inflationary pressures. The latest American embassy economic trends report noted that from year-end 1980 to year-end 1986, the domestic money supply grew from E£10.4bn to E£37.1bn, an increase of 358 per cent. Domestic credit grew from E£14.1bn to E£44.7bn, an increase of 317 per cent.

The US figures indicate that credit ceilings imposed early in 1987, which, incidentally, did not apply to government borrowing to fund the deficit, made little impact. Net claims on government of the banking sector grew by 18.2 per cent during the first nine months of 1987. Claims on the private sector grew by 12.7 during the same period.

Banks continue to be preoccupied about possible interest and exchange rate reform, and the likely rate of depreciation of the pound. Senior ministers say they are opposed to liberalising interest rates even though interest on E£ bank deposits is only about half the rate of inflation of some 25 per cent.

The government points with some justification to its exchange rate reforms as one of the economic successes of the past year. Egypt has moved some way towards rationalising its tangled system of exchange rates.

There is the central bank rate of E£0.70 to the US dollar used to calculate the cost, for budgetary purposes, of strategic imports such as grain. The rate is also applied to oil and cotton exports and Suez Canal revenues entering the central bank pool which are used to finance commodity imports and pay external debt.

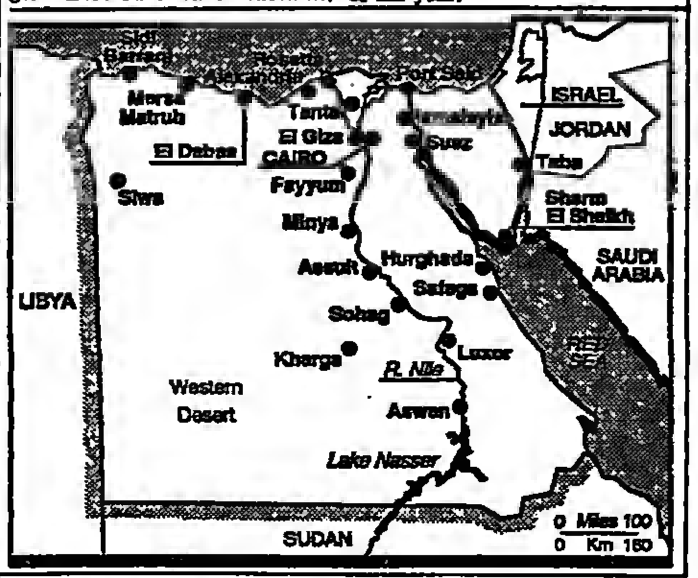
Then there is the commercial bank rate or "free market" rate covering almost all transactions outside the central bank pool. The free market rate is set each day by a central bank supervised committee. This has been hovering around E£2.20 to the dollar and is meant to reflect market conditions. The third rate is the unofficial market which is about 4-5 per cent above the commercial rate.

In March, the authorities completed the unification of the commercial bank rate to cover such items as airline tickets which had previously been calculated at a lower rate. The exception is customs duties which are still levied at E£1.89 to the US dollar. Officials will not be drawn on when this might be raised to the "free market" rate on the grounds that they are concerned about speculation in imports.

In an economy of scarcity, stocks are "solid gold," as one banker put it. The authorities, whose task it is to conserve foreign exchange for essential imports, have been alarmed by evidence of speculative purchases of building materials, especially lumber, and automotive spare parts.

Since the May 1987 exchange rate reforms, the pound has depreciated by a modest 5 per cent against the US dollar. Bankers assume that a gradual depreciation will continue and some are predicting a rate of around E£2.50 to the US dollar by the end of the year.

President Mubarak of Egypt with Mrs Thatcher, Britain's Prime Minister, at 10 Downing Street



Islamic funds

A liquidation threat

IS THE party over? That is the question being asked by bankers and businessmen following the introduction in early June of a new investment law that seeks to curb the activities of Islamic investment companies whose spectacular growth since 1984 has stunned the banking sector and presented the government with a huge regulatory problem.

Discussion in Egyptian financial circles has tended in the first half of this year to focus on an unfolding drama that has pitted the authorities against this powerful new force whose deposits are believed to total billions.

Heads of these so-called Islamic companies, which pay "dividends" rather than "interest" on deposits in accord with Islam's ban on usury, declared they would seek modifications to the new law, and if that was not successful they would go into liquidation.

The government has been slow to confront these institutions which were allowed to grow more or less unchecked since the phenomenon first appeared in 1984-85. This has prompted criticism from local bankers who believe it will now be much more difficult to regulate the Islamic sector without harming the overall financial system.

Some bankers also believe that, in drafting the new law, the authorities should have consulted more closely with the investment companies themselves to guard against the possibility of a crash that might cost millions of small investors their money. "They might have got the law right," said a prominent Egyptian banker, "but the same couldn't be said for the politics."

The Islamic sector, which is dominated by four or five large companies, has reached a size where the collapse of one or more of these institutions could cause serious political headaches for the government.

The four largest Islamic funds – al Rayan, al Saad, al Hoda Misr and Badr – estimate they have some 600,000 depositors. If the figure is correct, then the government would seem to have every reason to tread warily.

Chairmen of these companies have been preparing their depositors for the worst and in so doing have been seeking to shift the blame for any possible collapse on to the government. In late May, the largest of the investment houses suspended transactions pending meetings of their depositors.

This followed a ferocious official campaign that provoked a run on several of the companies. Government spokesmen were extensively quoted in the official press as casting doubt on the security of deposits and the probity of those in charge of these institutions.

In the three weeks to the middle of May, E£170m was withdrawn from al Rayan, according to Ahmed Tewfik, the acting chairman. There were runs on the deposits of other Islamic companies prompting the temporary moratorium on withdrawals, although several funds, including al Hoda Misr, say they are still paying "dividends."

New government regulations require these companies to reconstitute themselves as joint stock-holding entities and to issue share certificates in exchange for deposits. This way, the government argues, depositors' funds would be more secure.

The companies would also be required to lodge deposits in an officially supervised account. Strict rules would be applied to the transfer of funds abroad. One of the government's biggest concerns is that perhaps hundreds of millions of dollars lodged abroad by Islamic investment companies are beyond its reach.

A ban on travel for the heads of Islamic institutions reflects official worries that principals may be tempted not to return. An oft-repeated accusation against the Islamic sector is that some of the companies are operating pyramid schemes whereby they are paying dividends from the deposits of new investors.

The companies themselves deny they have been doing this. Mr Tewfik of al Rayan said that in a country where the inflation rate exceeds 20 per cent it would not make sense to pay less on deposits. Egyptian banks are offering 11-12 per cent interest on Egyptian pound (LE) deposits.

Foreign bankers say that while it may have been possible for the Islamic companies to pay "dividends" of 20 per cent and more under profit and loss agreements with their clients in 1984-87, when there was a raging black market in Egypt and an accompanying rapid depreciation in the value of the pound, circumstances are more difficult now.

Islamic investment houses are widely assumed to have been among the biggest black market traders. However, since IMF-agreed exchange rate reforms in May 1987, the unofficial market has subsided. Opportunities are limited for speculative profits in a flat local market in which $4-6bn was traded annually before last year's reforms severely curtailed the black market.

Islamic institutions have been obliged to turn more towards investing in local projects such as real estate and industrial enterprises as well as continuing their traditional activities of commodity trading and currency speculation. Investment in industry in a difficult local environment requires managerial skills, a strong nerve and patience.

Initial returns from these investments would be most unlikely to support dividend payments of 20 per cent or more on either Egyptian pound or foreign currency deposits. Mr Tewfik appeared to admit some of these difficulties in a recent interview when he said it was probably a mistake for al Rayan to have begun investing in longer-term projects at a time when official pressures have cast doubt over the future of the Islamic funds.

The new government regulations give "companies for the utilisation of funds" (in Arabic, *sharikat tauzif al amwal*) three months in which to comply or go into liquidation. If these institutions decide to liquidate, they would have two years to repay depositors. Those that decide to fall into line with the new measures will have one year in which to reorganise their affairs.

Mr Tewfik said the new restrictions would make it almost impossible for him to operate. He added that if his company went into liquidation, he would be unable to repay depositors within two years. He estimated it would take at least 10 years to realise the company's assets and return funds to investors.

Meanwhile, officials are saying that if one of these institutions collapse, the government would feel no obligation to bale it out. People cannot say they were not warned, said one senior minister.

Tony Walker

Privatisation

Continued from Page 2

He said that he was not in favour of privatising public sector entities. He would rather see more assistance given to the private sector to grow in tandem with government-owned enterprises. His opposition to privatisation, he declared, was "non-ideological." It was simply that he believed the same goal – the revitalisation of industry – could be reached by encouraging private sector growth.

Mr Wahah said that it was only a few years ago that the instinctive government response was to say "no" to any new private sector project. Now, it was inclined to say "yes." Furthermore, the public sector was no longer being given the "power of veto" over new proposals that might create competition.

The Industry Minister said that he would like to see the balance between the public and private sectors redressed, and even reversed by "enlarging the private sector base."

The United States Agency for International Development (Usaid), in line with the Reagan Administration's policy of encouraging private enterprise in developing countries, is devoting funds and resources to this end. One of its projects under what is known as ESOP (employee stock ownership programme) is to encourage a form of "people's capitalism" at a new tyre-making concern in Alexandria.

Usaid is providing a long-term loan of E£40m to enable employees to buy a stake in a new radial tyre-making plant for trucks. Employees are expected to take a 25-30 per cent stake in the company which will operate as an offshoot of the public sector Trenco company under the foreign investment Law 43 to accommodate Pirelli of Italy as a shareholder.

Usaid is also working in provincial governorates to encourage a transfer of small enterprises from public to private ownership. Such enterprises as brickmaking plants and chicken farms in the Damietta and Munifya governorates are being sold to private investors as an experiment.

Usaid officials, who say they are staying out of the limelight on the privatisation issue because of its political sensitivity, hope that a successful transfer of small enterprises in the governorates will serve as an example for the privatisation of larger units in the cities.

Meanwhile, Dr Sultan is determined to press ahead with his liberalisation programme in the tourism sector. He says he has not lost the battle of the San Stefano. He expects it will pass into private hands, probably to the al Fayeds...on a 99-year lease.

Tony Walker

The country's population growth rate threatens its prosperity

More and still more mouths to feed

IF THERE is one problem which both dwarfs and conditions all other obstacles to Egypt's prosperity, then it is surely the country's rate of population growth.

According to a 1985 report by the Government's Central Agency for Public Mobilisation and Statistics, the population – which probably surpassed 50m in 1986 – increases by one person every 24.4 seconds, or by 1.294m a year. Western experts reckon that the number of Egyptians, with a growth rate of 2.8 to 3 per cent, will easily exceed 70m at the turn of the century and could double in the next 23 years.

This increase in a population which numbered little more than 20m at the time of the 1952 Free Officers' coup has transformed the social, economic and political challenges confronting the Egyptian authorities.

Egypt's population growth is by no means the highest in the developing world. Numbers are growing faster in other Arab countries, and Iran – a country with a similar population to Egypt's – has chalked up annual increases of more than 3.2 per cent in recent years. Indeed, some Egyptian commentators claim the population issue has been over-dramatised, and blame inadequate production or urban congestion caused by bad planning for many of the problems.

This seems complacent, in view of Egypt's limited resources. Although more than half the population now lives in towns, over-crowding is not just an urban problem: the habitable 4 per cent of the country into which the total population is crammed – an area the size of Switzerland – is one of the most densely populated areas on earth.

Moreover, population growth is imposing intolerable strains on the country's economy and its welfare system. With every extra million Egyptians (that is, roughly every eight months), the quality of education and health services deteriorates, and the government's ability to deliver on its promises of jobs or subsidised basic necessities becomes more constrained.

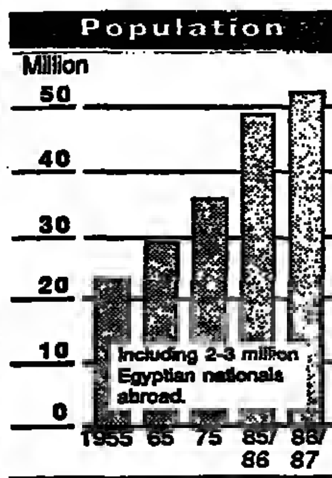
Egypt now depends on imports for more than half its food supplies, and needs to create about 450,000 jobs a year just to keep the already high unemployment rate from rising.

The government is devoting considerable resources to try to educate people about the merits of family planning and to make contraceptives cheaply available. Western and United Nations agencies are also heavily involved: the US Administration for International Development (AID), for example, is spending $102m over 10 years on family planning activities all over the country, an indication of Washington's concern.

The irony is that rapid population growth results not from a spiralling birth rate but from the success of modern medicine in reducing mortality. Between 1967 and 1986, the death rate dropped from 14.2 to 8.5 per thousand Egyptians, partly because of strides in reducing infant mortality through a programme of oral rehydration treatment for babies.

However, the number of births remains stubbornly high: 38 per thousand of the population now compared with 39 in 1967. The population's age profile is declining: some 12m Egyptians are women of reproductive age – that is, between 15 and 49.

The present average fertility rate is just under five children per mother, and a host of social, cultural and religious reasons is likely to keep it close to that level for some time. A 1984 survey on behalf of the Government's National Population Council found that the contraceptive prevalence rate (the percentage of women of reproductive age using contraceptives) was 32 per cent, about the average for the developing world.



Large numbers of babies have long been the norm, partly because of the traditionally high infant mortality rate and the perception that children can be a prop in poverty and old age, partly for reasons of prestige, partly out of a fatalistic belief that "Allah will provide" regardless of a family's size.

Egyptian women marry early, so they are exposed to what population control experts refer to as "the risk of conception" for most of their reproductive life. They tend to be insufficiently aware of the need to space pregnancies in order to breast-feed their babies for as long as possible. The traditional preference for male children means couples continue to reproduce until they have a son.

Radical action to reduce the birth rate, such as the provision of incentives for small families is politically out of the question. Yet, even without such open intervention, some other developing countries have experienced greater success in reducing population growth. In Indonesia, the Moslem world's most populous country, the authorities have succeeded in bringing the rate down to 2.1 per cent. Why is Egypt lagging behind?

One reason is a continuing failure by the authorities to get the appropriate amount of information about birth control across.

In general, this is not a matter of complete ignorance, or of inability to obtain contraceptives, which are widely available at token prices from thousands of clinics, medical surgeries and pharmacies in the countryside as well as towns.

Nor does the failure reflect a lack of will on the part of married couples, at least in principle, to restrict family size. According to the 1984 survey, a majority of women saw three children as the ideal number.

The difficulty lies in putting this principle into practice. Indeed, the same women interviewed in 1984 very often turned out to have as many as seven offspring. Part of the fault lies with doctors who prescribe the pill without ensuring that their patients understand how to use it, or fail to provide an adequate follow-up. Western birth control experts report that a lot of women start a family planning programme only to drop out because the pill, wrongly taken, has failed to work or because they are scared by unexplained side-effects.

A second reason for Egypt's relatively poor performance in family planning lies in the lack of high-level commitment to the idea. President Hosni Mubarak talks about the need to check population growth, and there are TV advertisements pointing out the pitfalls of big families. But western observers see little evidence that government ministers are putting real political muscle into the campaign.

"Family planning is not a high political priority," said an official. "It's a hard slog, it's controversial, it doesn't win you good marks on your political record, and so it's not worth sticking your neck out for."

In Indonesia, on the other hand, the government has implemented a co-ordinated birth control programme and President Suharto has underlined his own commitment by instituting awards for people making an outstanding contribution.

The third factor holding Egypt's family planning effort back is essentially religious and political. Major controversy in Egyptian religious circles surrounds the question of whether Islam sanctions contraception, and this is compounded by frequently-voiced political suspicions about western involvement in population control activities.

"Some people think that family planning is a western idea to diminish the number of Moslems," says Prof Fouad Hefnawi, who runs the International Islamic Centre for Population Studies at Cairo's Al-Azhar university. "Religious leaders see that a lot of money is given for family planning, and they start to wonder: why is US AID greatly interested?"

Thus it is to little avail that the Grand Sheikh of al-Azhar, Sheikh Jad-al-Haq, one of the top three government-appointed Islamic leaders, has been on record as saying: "Nothing in the Holy Koran or in the reported utterances of the Prophet prohibits the planning or limitation of childbirth."

With independent preachers up and down the land taking a different line, the argument that birth control is sinful appears to have been gaining ground, along with the growth of the religious trend in the last few years.

Prof Hefnawi believes the only way to counter such beliefs is to disseminate scientific information about the harm to a woman's health (and that of her babies) caused by repeated pregnancies. Widespread distrust of what the government says undermines its TV advertising campaigns, and scare stories about the development problems caused by a rapidly-rising population simply do not strike a chord with ordinary Egyptians.

"I can't persuade an Egyptian by saying: because you love Egypt and because we don't have enough electricity, have fewer children. It's not his problem, just as most people do not feel responsible for Egypt's debts," says Prof Hefnawi.

There are some more hopeful signs in recent research work, however. For one thing, the number of people who would insist on having five children or more in order to be sure of a son has declined markedly in the last few years. So has the number of people expecting to rely on their children when they get old. Perhaps reality is slowly catching up with the mythology about the need for large families.

But as western experts admit, translating that awareness into action by significantly increasing the contraceptive prevalence rate is going to be a long haul.

Andrew Gowers

ELECTRICITY GENERATION
Capacity in MW

	Installed	Available
Steam turbines	4,575	3,600
Gas turbines	1,561	1,038
Hydro turbines	2,713	1,932
Total	8,849	6,570
Emergency construction plan*		
Cairo south	480	
Damietta	260	
Al-Nuberiya	480	
Total	1,220	

*Plants due in operation in 1988

An $800m loan is being held up

The drawbacks of cheap power

"THE SHORTAGE of Nile waters because of the lack of rains at the river's sources is the great challenge confronting us," said President Hosni Mubarak in a gloomy May Day speech this year. "This water shortage could mean a shortage of electricity and will affect our agriculture."

The President warned that these ill-effects of a depleted reservoir at the Aswan High Dam could be felt as early as July, and that if the water level there dropped below 147 metres the dam's entire hydroelectric power output would stop.

In the event, the water has stayed above 150 metres. But the scare over the state of the High Dam, as well as underlining Egypt's dependence on the Nile, has served to highlight how precariously placed the government is in trying to satisfy its population's rapidly-rising demand for electricity against a background of declining oil reserves and the shortage of foreign exchange.

Ensuring that power generation capacity keeps pace with demand growth, which in some years has been as high as 15 per cent, has long been a struggle for the authorities, though up to now they have succeeded. But the water shortage has raised difficulties of an entirely new order.

"The government is having to hustle not only to take account of new demand but also to replace lost hydroelectric capacity," said one western aid official.

The problem has its origins in the drought-ridden uplands of Ethiopia, source of the Blue Nile and catchment area for more than 80 per cent of the waters flowing through Egypt. Rainfall there has been consistently low since 1981, leading to an alarming reduction in water flows at Aswan. In 1984-85 an inflow of only 38bn cubic metres – the lowest this century – was recorded. The annual figure has been below the average 55.5bn cu metres over the last two years.

Ethiopia's rainy season will be crucial

This has steadily brought the waters in Lake Nasser behind the High Dam down towards the danger level at which the hydroelectric power stations, which account for about 27 per cent of Egypt's total generating capacity, are affected. The main High Dam station is now pumping out 1,200 MW compared with installed capacity of 1,750 MW. By August, some western experts expect it to be down to only 850 MW.

If Egypt has managed to scrape by without significant power problems this year, the same cannot be predicted with confidence for 1989. Much depends on this summer's rainy season in Ethiopia. The authorities could yet be faced with a choice between plunging large numbers of householders into darkness and cutting power supplies to one or two large industrial consumers, a politically-sensitive move given the lay-offs that would result.

The government's response to the problem has been to initiate a crash programme of power station construction, while using apocalyptic warnings about power cuts to try to encourage Egyptians to conserve electricity.

Mr Mohammad Maher Abaza, the ebullient and energetic Electricity Minister, says consumption growth is already coming down (to 10 per cent last year), partly as a result of recent electricity price increases, and that the crash programme is on the way to solving the problem, with a significant expansion of capacity due to come on stream in the summer of 1989. Between December and February, three contracts were signed for the expansion or construction of power stations at Cairo south, Damietta and al-Nuberiya. If completed on schedule, these projects will boost total generating capacity by 1,600 MW.

"I am adding the equivalent of a High Dam in one year," says Mr Abaza. "Next year we will have no problem whatsoever."

Egypt's five-year plan calls for the addition of another 5,500 MW, mainly of coal- and gas-fired capacity. Mr Abaza talks of wanting to achieve a major switch to gas within three years in line with an expected intensification of the search for gas by foreign oil companies and in view of the current post-Chernobyl freeze in Egypt's nuclear plans.

The government has asked the Soviet Union to help finance a E£1bn coal and gas power station at Ain Moussa. More ambitious still, it is considering link-ups with the power systems of Jordan, Turkey and then Europe over the next six or seven years.

Unfortunately, Egypt's ability to bring all these plans – including the most immediate ones – to fruition depends on the availability of foreign financing, and this is bound up with a serious disagreement between Cairo and western aid donors over electricity pricing.

The question of energy prices has emerged in recent weeks as a principal focus for debate between Egypt and its international benefactors. Failure to resolve it is holding up the disbursement of a key infrastructure loan package worth $800m from the World Bank, the US Agency for International Development and the African Development Bank. Without that money, Egypt's emergency power station construction programme will not be completed on anything like the Minister's schedule.

For the donors, the issue is simple. They argue that Egypt is spending vast amounts subsidising electricity prices, in the process inflating its budget deficit, diverting fuel oil from export markets and encouraging wasteful consumption. But Egyptian officials point to recent price increases and hint at the social disruption which more radical moves might cause.

The donors reckon that it costs the government 13 piastres per kilowatt hour to generate, transmit and distribute electricity which it is selling on average for 3 piastres per kwh. Public sector industries, which buy a quarter of Egypt's electricity, obtain it for a mere 0.87 piastres. Bridging this price gap accounts for about half of the total E£6bn which they calculate Egypt spends on energy subsidies. In other words, eliminating the anomaly would go a long way to bring the budget deficit under control.

Like so many other hopes concerning radical reform of Egypt's economy, however, that proposition would seem to belong more in the realms of wishful thinking than immediate practicality.

Andrew Gowers

Oil revenues

Focus on western desert

EGYPT'S ENERGY sector is gradually emerging from the gloom and lethargy into which it was thrown by the collapse of the international oil market.

The fall in oil prices of 1986 froze the government in its tracks. In 1986, it encountered serious problems in marketing oil owing to its insistence on maintaining a government selling price well in excess of market levels: for a period exports were curtailed completely, and production dropped below 600,000 barrels a day amid a furious row between foreign oil companies and the authorities. More damaging in the long term was the government's belated failure to put any new exploration concessions out to tender for 2½ years.

A recent flurry of concession awards has improved the medium-term prospects considerably.

1987 was the most active year on record in terms of acreage acquisitions from the Egyptian General Petroleum Corporation (EGPC). Concessions were offered both in the Gulf of Suez – the relatively mature field that is the source of most of Egypt's current oil production – and in the Western Desert, the vast and largely untapped area which is seen as the main hope for the future.

The response from foreign contractors was active, partly because the bidding rounds had been preceded by such a long lull. Less successfully, offshore areas in the eastern Mediterranean, off the western desert coast, were also opened to bidding for the first time – with one awarded to Amoco and two to Shell, which emerged as the most aggressive bidder in last year's rounds. In all, up to 20 new concessions are now being worked.

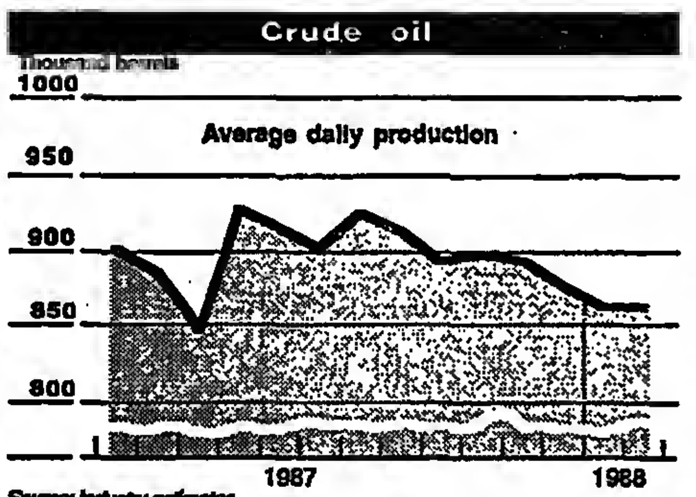
Some foreign oil companies are making significant new investment commitments, and oil experts speak more confidently about the possibility of postponing the day when Egypt will have to use precious hard currency to pay for its oil.

Things have also improved on the marketing front. EGPC now reviews its selling price once a fortnight, which allows for more flexibility in adjusting to world prices. Oil companies, which bore the brunt of the 1986 marketing problems, still grumble that the GSP – the price they pay the Egyptian government for oil they sell on the world market to recover profits and costs – is frequently higher than the world level, and that their profits are squeezed. But the gap between the two is now much smaller.

To call the mood euphoric, though, would be putting it too strongly, for several reasons.

First, after a sharp increase in 1987, Egypt's oil production has dipped this year. Output, which reached a peak of 925,000 barrels a day (b/d) last year, was bumping along at between 860,000 and 864,000 b/d in the first few months of this. Coupled with the present weakness in crude prices, this means that Egypt's foreign exchange revenues from oil this year will be significantly reduced: possibly half way between the very low $697m earned in 1986 and the $1.52bn achieved last year.

Suggestions by Egyptian officials that the production cut was a deliberate ploy to assist Opec's efforts to bolster prices are probably disingenuous. Industry-watchers in Cairo believe the drop is more likely to reflect maintenance problems and the hiatus in drilling activity between 1985 and 1987. It will be at least 1990 before the current upsurge in exploration yields tangible results. In any case, most foreign experts believe it is unlikely that Egypt will be able to sustain an increase above 900,000 b/d for any length of time in the future, and the Egyptians' own five-year plan sees oil accounting for a declining share of gross national product.



Source: Industry estimates

Second, everybody involved is aware that the days of big oil finds in Egypt are long gone. The country's biggest fields in the Gulf of Suez were discovered by the US oil major Amoco, the biggest foreign oil contractor in Egypt, in the 1960s and 1970s, and there has not been a strike on any significant scale since 1981. These fields, accounting for some 75 per cent of Egypt's current production, are nearing the end of their productive life, and the recent bidding round for Suez concessions was the last.

As a result, the western desert is now the main focus of interest. The problem is that oil-bearing structures in this region – which accounts for only a little more than 8 per cent of current output – are relatively small.

What is more, the costs of exploration and development there are generally higher than in Egypt's older fields because of the large amount of seismic work required. Offshore, the expense is even greater, given the depth of the sea-bed in this part of the eastern Mediterranean.

Barring some unforeseen discovery then, Egypt faces a long-term secular decline in production, possibly mitigated by some short-tarm recovery in reserves in a coupla of years.

This may not seem an immediate problem, in the sense that Egypt has reserves enough to keep it producing into the first quarter of the next century.

On the other hand, domestic oil consumption is rising rapidly, eating steadily away at the amount of crude Egypt has available for export. The shortage of hydroelectric power from the Aswan high dam is already forcing EGPC to divert exportable oil for use by domestic industry.

The country's exports, in any case, are very small – only 190,000 b/d yielding revenue to EGPC last year, with a further 225,000 b/d sold by foreign contractors as payment in kind for their exploration costs and profits under Egypt's production sharing agreements.

This means that at some stage in the next few years, EGPC will have no more oil of its own to export, and will have to consider paying foreign companies in cash rather than in kind if it wishes to retain their services. That is scarcely a comforting prospect for a country already short of foreign exchange, or for the companies themselves. But if present trends continue and no unforeseen big discoveries crop up, such a point could be reached between 1995 and 2010.

"When oil exports fall below the critical level, the Minister will have to try to entice the companies into staying by promising to pay hard currency or allow them the export oil which is desperately needed at home. It's a very sticky problem," said one worried foreign oilman.

Disquiet at the rate at which oil reserves are being gobbled up on the domestic market has prompted the government to encourage exploitation of Egypt's other main energy resource – natural gas – for use in dual-fired power stations.

Egypt undoubtedly has sizeable gas reserves: 10 trillion cubic feet have been discovered, and anything up to a further 40 trillion may be waiting to be found. The problem until recently has been a lack of incentive to look for it. EGPC's production-sharing agreements with foreign companies have tended in the past to refer mainly to oil. Until 1980, foreign companies had no right to develop gas deposits they found. Thereafter, contracts stated that if companies found gas in their search for oil, they would be compensated for exploration expenditures. This still did not represent an incentive to explore specifically for gas.

The government appeared to take the view that it could wait until it had the capacity to develop the gas itself, perhaps for liquefaction and export. It has now concluded that it would be better to harness foreign expertise to exploit gas for the domestic market than to pursue more grandiose schemes – a sensible decision since Egypt's gas deposits are widely-strewn and would be prohibitively expensive to develop into an export industry.

This year, a major improvement in terms for foreign companies looking for gas has come into effect with EGPC's amendment of production-sharing agreements with Shell's local exploration subsidiary Shell Winning and with IEOC/Agip, the Italian consortium which is the second largest foreign oil company in Egypt. Similar agreements with other companies are complete or in the pipeline.

From now on, gas is to receive similar treatment to oil. The foreign company undertakes to produce up to a given amount of gas, while EGPC guarantees to purchase a minimum quantity per day on a "take or pay" basis – that is, it will pay for the minimum in oil whether or not it takes delivery straight away.

The move has been warmly welcomed by the companies involved, especially Shell, which is committed to produce 150m cu ft per day (the equivalent of 28,000 b/d of oil).

Some companies are rather more cautious, however. They worry that the government may not keep its promises to build more power stations to take all the new gas, and that they may therefore be landed with unwanted stocks which cannot be stored. They say that Egypt still has only an embryonic gas grid and some claim that the returns offered for gas exploration are not generous enough.

In this light, the big test for Egypt's new gas policy will come in September with a bidding round on concessions in the gas-rich Nile delta, which also happens to be located close to potential industrial users.

The consensus appears to be that since EGPC is paying for gas in oil, it will be attractive for contractors to explore for gas so long as Egypt has oil free for export – which brings the argument back to the central concern about the country's depleting oil reserves.

Andrew Gowers

OIL PRODUCTION
1987

	Average (000 b/d)	Number of fields
Gupco (Amoco)	491	19
Petrobel (IEOC)	174	4
Suco/Deoco (Deminex/Shell-BP)	133	3
GPC	27	15
Khalda (Conoco)	17	6
Suesso (Esso	16	1
Bapetco (Shell)	11	4
Agiba (IEOC)	11	7
Wepco (Phillips)	5	3
Others	10	5
	895	67
Gulf of Suez	837	41
Western Desert	58	26

The limits of gradualism

Continued from Page 1

donors – is that a precipitate move towards reform could trigger major unrest, as Sadat's increase in bread prices did in 1977, or as a rumoured change in working conditions for security force conscripts in Cairo did in February 1986. Both outbreaks of rioting constituted a sharp reminder that the proverbial good nature of Egyptians cannot be counted on for ever, and of the extent to which the current regime depends on the army as the ultimate buttress of its position.

President Mubarak is well aware of the structural nature of Egypt's ailment; in public speeches these days, he talks of little else. In a particularly gloomy address on May Day, he pointed ont that the biggest obstacle to Egypt's prosperity is "that we produce much less than we consume" and that consumption – fuelled by subsidies – was increasing at a "terrible" rate along with Egypt's population.

So far, however, he has been palpably unable to translate that awareness into action or to "sell" the type of drastic measures which the IMF says are necessary to create the framework for a more productive economy: sharp cuts in public spending, steep rises in interest rates and a move to a single free-market exchange rate. Instead, he has consistently sought to buy time to allow more gradual and partial reforms to taka effect, while assuring the Fund that Egypt is determined to reach agreement with it and the World Bank.

The government's worries about the potential social impact of radical reform evoke considerable sympathy from its western interlocutors, especially in view of Egypt's political importance to Washington; indeed, the conditions attached to last year's IMF standby were among the most lenient granted to any Third World debtor nation. It is equally understandable that officials should fret about tha effects on economic growth of a classic IMF austerity programme.

But as President Mubarak implied in May, the underlying challenge for the government – and one that only it can ultimately address – is to curb consumption while boosting production. Both sides of the equation are likely to require more radical action than is now being contemplated, whether in reducing the availability of subsidies to those who do not really need them, or in countering the monumental inefficiency of Egyptian industry and agriculture.

There is a real danger that in the absence of stronger medicine or of firmer political direction, Egypt will fall into a cycle of "stagflation" which will be just as damaging to its long-term stability as a short, sharp shock.

Egypt: Nasser to Mubarak (Croom Helm, London, 1988)
 # Egypt: internal challenges and regional stability (Royal Institute of International Affairs, London, 1988).

ARTS

My Wife Whatsername/Watermill

Martin Hoyle

The Watermill Theatre at Bagnor, outside Newbury, provides a host of pleasures incidental to playgoing. Charming lawns (if the fagends could be removed), a clean river winding through Berkshire meadows, the occasional local celebrity in the shape of Sir Michael Hordern cheerily waving his stick as he strolls (wisely, it transpires) by. The theatre's 21st birthday season will later present the British première of an intriguing American play. All the sadder, therefore, to record that this new comedy, apparently destined for the West End, is an unmitigated disaster; a blot on the fair name of English farce, it redounds to the discredit of its joint anthors Jonathan Izard and Christopher Lillicrap (don't tempt me, don't tempt me . . .).

The plot is time-honoured farcical stuff. Young Nigel, up and coming diplomat with a secret government phone number, is *horrified when his girl-friend* moves in, complete with her singing telegram business. Her stuffy father, Nigel's boss as it happens, also descends unexpectedly with an Arab prince whom Nigel is told to accommodate during hush-hush negotiations for a trade agreement regarding figs ("Imagine what would happen if the bottom fell out of the fig market!"). Among added complications is a mysterious eastern beauty whom Nigel married at a drunken party five years before and who promptly vanished. She reappears in response to his anguished advertisement, amenable to the idea of a divorce, but turns out to be the prince's long-lost love. Needless to say, every character has some reason to avoid the others, and much artificially whipped-up panic has the *cast leaping in and out of gorilla* costumes, diving suits, sexy schoolgirl outfits, bedrooms and bathroom ("What if he should want to have a VIP?" cries our hero disturbed by the thought of faulty plumbing).

Mr Lillicrap has worked much with children's televison and it shows; not merely in the jokes, which are often excruciating, but in slovenly construction and skatchy characterisation (both fatal in farce). Some of the acting is terrible. Roger Martin's Nigel resorts to quick, ingratiating comments to the audience; as his girlfriend Zoe Speeking (yes, there *are* telephone jokes) Erika Hoffman is squeakily insufferabla. Andrée Melly, who should know better, mugs and grimaces as the girl's mother; Paul *Imbusch fleetingly reminds us* of what a good heavy comic he can be – I recall a Stoppard copper with particular plasure – as the diplomat with his eye on a knighthood if the all-important deal does not fail ("The British will be without figs – and that will be binding!").

Geoffrey Scott's design for Nigel's flat ingeniously exploits the limited space. Christopher G. Sandford directs. But where are the Rixes of yesteryear? Preparing for a revival of *Dry Rot*, that's where; so watch this space – and the relevant stage – for the real thing. This is flavourless, ersatz froth.

Kagel/Elizabeth Hall

Max Loppert

The Almeida Festival travelled on Saturday to the South Bank for a tripartite celebration of Manricio Kagel. The Argantinian-born composar, musical theorist, film-maker, and surrealist-humorist is one of the "themes" of this year's festival, and this was the first of four Kagel days. The music-theatre gronp Vocem gave two programmes, early-evening and late-evening; in between the Almeida Ensemble under Rupert Bawden gave the first British performance of *Oral Treasoii*, staged by the Almeida artistic director Pierre Audi (and simultaneously recorded for future BBC television showing).

Four or so hours of Kagel is no joke: this was, for me at least, a case of surfeit, or more proving definitely less. But then, what follows is one critic's confession of failure – and this not for the first time – to follow the drift of what Kagel and his performers were proposing. The humorous points that are the nub of his music-theatre conceits are impertinently appealing ones, usually with a sharp philosophical edge to them, and one gets the message quickly enough; but then it is repeated, over and over again.

Oral Treason (1981-83), with its original French text newly translated by Christopher Logue, is a portrait, called an epic, of the Devil and all his works. It is a patchwork of speech (folk tales, legends, and other outcrops of oral tradition) set in a suite of 36 musical numbers, some obviously accompanimental, coma more indapendently assertive. The score is a mildly piquant stirring-together of Satie and Hindemith, with vibraphone and cimbalom trickles; and gentle taped insertions supplied by EMAS: no strong flavours, no ill-considered side-effects, and very little evidence of what the New Grove Kagel entry calls the "constant fecundity" of his invention.

In Audi's staging, read and spoken by Eleanor Bron (who also bravely ventured her singing voice), Geoffrey Chater, and Karl Johnson, the piece was delivered with real wit and sparkle; but at 90 minntes I thought the limits of its natural life cruelly overstepped. In Vocem's rendering, earlier in the evening, of *Ensemble* (1971) as a very familiar joke about opera-singers and the comedy of different singing sounds, weariness set in a good deal sooner. The surrealist thought-processes evidenced in the 1928 Bunuel-Dali film masterpiece *Un Chien andalou*, which was here shown with Kagel's 1981-2 orchestral accompaniment (once again mildly diverting), have a strict, surprising logic, which is hrought home with laconic economy. The lack of shock, surprise, economy, or governing strictness of vision was the unadmitted leitmotif of this Kagel celebration.

Edinburgh Fringe Festival

Productions by 473 companies from 22 nations will take place dnring the 42nd Edinburgh Fringe Festival this year: 913 different shows will be staged between August 9 and September 3 in the 144 fringe venues by more that 600 artists.

Scottish representation is on the increase, exceeding companies from the rest of the UK and matching London's 139 companies. Although this year's festival is marginally smaller than last, foreign participation is higher than ever, accounting for 60 of the main groups.

During its bicentennial year 12 companies from Australia will be present. US companies are still in the majority, whith other nations represented including Canada, New Zealand, Yugoslavia, Russia, Lesotho and Israel.

Ticket prices have increased slightly since 1987, the average being around £3.40. Further information from (031) 226 5257/5259.

Norman Foster's proposed plans for the King's Cross development

Architecture/Colin Amery

Fostering a revolution

There should be joy, for once, in the hearts of the British architectural profession. Norman Foster, long acknowledged internationally as a leading twentieth century designer, has been given the opportunity he has always wanted, to build on a large scale in London. The London Regeneration Consortium (led by Rosehaugh Stanhope) has announced that Foster Associates has been appointed master planners for Mr Stuart Lipton's giant King's Cross Development.

Mr Foster was originally invited to work alongside the American master planners Skidmore Owings and Merrill. In the team were two of the more maverick American architects of the moment, Stanley Tigerman and Frank Gehry. Norman Foster saw his chance and decided to enter his own alternative plan, which was the one selected.

Foster is a visionary architect. He is closer in style and temperament to the founders of the first industrial revolntion and, like them, an individualist. His architecture reflects an acute understanding of advanced building technology: the Hong Kong Shanghai Bank headquarters in Hong Kong is one of the masterpieces of the twentieth century, and his sadly abortive proposals for the new BBC building in London showed a clear understanding of the relationships between town planning requirements and the new technology.

Foster recently wrote: "As we approach tbe next millennium . . . it is worth noting the quiet hnt dramatic revolution that is taking place in the building process. In the 1960s industrialisation meant standardisation on a vast scale . . . The monotonous prefabrications across the nation, usually in heavy concrete, are a legacy of that period. We are now coming full circle because the new generation of production technology makes it possible to tailor components for a single building, each one on a one off basis. There are no longer any economic benefits in repetitive look alikes. Components are manufactured on a global basis and the site becomes the assembly point and this has nothing to do with whether a building is faced with stone, metal or glass."

King's Cross offers any planner some 125 acres to add a significant element to London's commercial and social life. As the site for development is north of the two great stations, St. Pancras and King's Cross, it contains some listed early warehouse and industrial buildings, including the group of gasometers; most of tha listed buildings will be kept.

The essential elements of the plan are clear. The dense perimeter davelopment surrounds an oval 25 acre park embracing the canal which is intended to have the same qualities as the Nash terraces surrounding Regent's Park. The large glazed link between St Pancras and King's Cross will mark the major new rail terminal for London, probably linked to Channel Tunnel traffic.

The great glazed vault that may lie between the two station buildings has been criticised. Certainly it has an impact on the existing listed stations, but a light and beautifully engineered structure could be carefully sited to enhance both. British Rail, development partners in this whole project, has an important opportunity: to use an architect of the calibre of Foster to continue to raise its design standards.

The King's Cross proposals have developed considerably since they were first exposed in 1987. It is only now after the public exhibition that serious negotiations start with local residents, the London Borough of Camden and the landowners. The well-named London Generation Consortium should be encouraged to proceed at full speed: we need to know exactly what the mixture of uses is to be, and public facilities need close examination.

Is this the place, for example, for the siting of the "Grand Palais" of London? Is the connection with the British Library being exploited as a communications centre that will link the world's great libraries? Where are the new chnrches, temples and synagogues in the scheme? It is essential that these acres of potential do not become another godless jungle. The simple clarity of the plan should prevent that ever happening, but there is no reason for it to be architecturally bland; a large central open space inevitably leads to higher density around the edges but this is likely to make for a much more urban place.

What a relief it is to see an intelligent and beautifully simple plan for London, especially after the suburbanisation of the London Docklands. King's Cross has the wonderful advantage of still being near the centre, and is true innar city renewal: it utilises wasted land near to the heart of things. If I was building Canary Wharf, the prospect of King's Cross would scare me stiff . . .

An Occurrence at Owl Creek Bridge/Bracknell

Paul Driver

The Wilde Festival of Music, held at South Hill Park in Bracknell, is devoting itself this year to the less than inspiriting theme of 19th century American music. This affords us Gottschalk and Sousa, hoedowns and Hawaiian guitars, it's true, and apparently tolerates *Carmina Burana*, Dvorak and Judith Weir. For its operas, though – so eminently houseable in the small, beautifully appointed Wilde Theatre – the festival has accepted the formula of a double-bill only half of which links with the theme: Thea Musgrave's *An Occurrence at Owl Creek Bridge* (1981), based on a story of the Civil War hy Ambrose Bierce, and here receiving its premiere as a fully staged work.

Musgrave, 60 this year, has several times been her own librettist (for *Mary, Queen of Scots* and *A Christmas Carol*). In adapting Bierce's tale of a hanged civilian Southerner caught up in a war, she has had occasion to re-locate the narrative in the mind of his widow (Sarah Connolly), who is present on stage throughout this prodnction. In the story, the hanged man, Peyton Farquhar, imagines that he has broken free of the noose and is struggling through the waters of Owl Creek to regain his family: like William Golding's novel *Pincher Martin*, the tale proves to be the expansion of a dying man's final moment. In the opera, this fantasy is attributed to Farquhar's wife. The change makes for a more manageable dramatic situation, but seems to sentimantalize Biarce's tough-minded little sketch. Perhaps some irony is intended, however, for the wife's self-consolatory last words are underlined hy a hint of syrupy cello and angelic harp.

The opera lasts barely 40 minutes and requires only a baritone, three actors and small ensemble. It was very fluently staged (by Dominic Barber), with a neat gallows, subaqueous backcloth and wifely chair. Brian Rayner Cook took the singing role, and his mellifluous baritone was pleasing. His American pronunciations were worthy. The music available to him was a flexible *arioso* of tha kind thoronghly familiar in modern opera and here deployed with seusitivity. But one wished that he'd been given a few really full-throated moments to make the opera memorable, and that the score as a whole had been willing to rise above the level of the ultra-serviceable.

The tape part, an important feature of tha original radiophonic version, was omitted.

The Changeling/Lyttelton

Michael Coveney

Richard Eyre's first National Theatre production since being appointed successor to Peter Hall (the baton changes hands in September) is a glistening transposition of Middleton and Rowley's mid-17th century Italianate tragedy of blood and lust to a Spanish slave colony of the 19th century. First response is relief at signs of intelligent interpretative life after the dull respectability of *'Tis Pity She's A Whore*. But this is tempered with grave doubts about the casting of the main two roles and overall standards of diction and audibility.

The Lyttelton can be a cruel auditorium. Its stage works best when lined up flatly behind a forceful performance. Designer William Dudley here provides an echoing colonial hall with an inlaid gold ceiling, two magnificent Andalusian decorated portals and a framing madhouse of white tiles and perilous staircases that bring the fourth act *dumb show* into permanent juxtaposition with the main action.

The sight is most certainly one for sore eyes, but too many lines are sucked into the vacuum. In the case of Miranda Richardson's Beatrice-Joanna, the nobleman's daughter who hires her father's servant to kill an appointed fiancé, the neurasthenic minutiae of her performance are insufficient substitute for broader emotional brush strokes. There is no sense of what T S Eliot called the habituation to her sin, the process of becoming moral through damnation. Miss Richardson is superb in the great area by the physician's closet, but the voice remains small, the physical gesture non-existent. The acting is far too suited to the small-screen, even though she later successfully conveys the feigned symptoms of the bona fide virgin who, on supping the potion, sneezes, laughs and falls thence into a strange melancholy.

The colonised residents include the assassin De Flores, whom the tall and stealthy George Harris presents as a stiff synthesis of both Iago and Othello. His black face is pitted with African tribal scars, providing a new gloss on the reference to his "black mask" as well as the standing toad-pool of his supposed ugliness. Miscegenation is reactivated as a tragic taboo, De Flores taking his commission as a sign of experimental lust and Beatrice-Joanna, for her part, uncovering a serpent in the undergrowth.

The sense of hierarchy and separation is reinforced in the setting, where the upright Alsemero (Paul Jesson) finds himself embroiled in a writhing mass of grey-clad Bedlamites and plotting courtiers. This underside to the Alicante vistas of flat beaches and swaying palms glimpsed beyond the receding perspective of the main chamber is supervised by the jealous doctor Alibius (Stuart Golland) and his janitor Lollio (Paul Barber more vigorous than witty). The ornate physical world and the nightmarish substratum coalesce in a convincing statement of the Renaissance imagination. In this, its most eloquent respect, Eyre's production is a fine elaboration of Peter Gill's Riverside Studios version a decade ago.

But I miss the intense steaminess of Terry Hands's RSC revival of the same year, though not its crude excesses. Beatrice-Joanna's allotted husband De Piracquo (Mark Lockyer) haunts the house like an inmate once he has been knifed at the well-like apex of the labyrinthine outer insutution, his ring-bearing finger lopped off and proudly carried like a cheese straw or frisky sausage in De Flores' waistcoat. The chill insouciance of all this is bearable, but George Harris never develops De Flores into anything more luscious or lascivious than a routinely articulated Caliban with hots for the boss's daughter.

David Ryall brings a much needed greasiness and authority to the patrician Vermandero and Linal Haft is an imposing avenging brother. The costumes are very fine, Mark Henderson's lighting exquisite.

Alastair Muir

George Harris and Miranda Richardson

Weekend pop/Antony Thorncroft

Springsteen and Sade

The Boss was back in town on Saturday, just checking on morale. Everything was fine, as it invariably is at a Bruce Springsteen concert. As the sun's shadow passed over the 70,000 plus packed into Wembley Stadium and the man on stage sweated and growled and charmed his way through his routine four-hour set you actually found your faith in rock renewed.

Only Springsteen can pull off the illusion that here is this young truck driver, in black sleeveless tee shirt, the soul of the common man, spontaneously expressing in music the incoherent angst of modern life. You somehow forget that here is a multi millionaire, pushing forty, gliding on through a craftily-produced entertainment.

He looks so right, bulging muscles, loosely held guitar, exuding physical power, while his voice, world weary, hungry, commanding, is in equally sinewy shape. At just the right moments he cracks the mirror between star and us, dragging a girl from the audience to hug in "Dancing in the dark"; darting at one point from the deeply-terraced stage into the ecstatic throng to touch hands; pulling off trite but spectacular effects, as in "Better not touch", when a gaggle of beauties sassy on stage to flirt with the band. At the end, even though he's led his troupe off stage in a celebratory crocodile, you know he'll let himself be persuaded into yet one more encore, this time "Twist and shout", with 150,000 hands, held high, clapping ecstatically at the climax of this secular communion.

But what made it even more memorable than usual were the hints of change in the man. He was flippant, almost frivolous. The voice of the blue collar worker was muted. In his place the apparition of the homespun philosopher, the conscience of his nation, shimmered before our eyes. In his long and winsome intro to "Spare Parts"; in the bantering lead into "Coward when it comes to love", you could almost see the sign pointing towards Caesar's Palace, Las Vegas. Suddenly Springsteen sounded ominously like President Reagan glazing through his weekly radio chat to the people.

Could it be that this mellower Springsteen, dressed, damn it, after the interval like a country singer, in jacket and gambler tie, has been touched by romance? The toast of the gossip columns, Titian-haired Patty Sciaffa, long in boot and thigh, was up there with him, playing guitar by numbers, snuggling up on the frequent love songs and looking, well, proprietorial. It added just another flavour to the gargantuan feast of a Springsteen concert, a feast in which the high spots, "Glory Days"; "War" (surely with its creator Edwin Starr helping on the vocals?); and a quiet reflective "Born to Run", still have the power to lift the spirits to the skies and even the body to its feet.

On Friday there was a very different atmosphere for Sade at the Alexandra Palace. In this summer of stadia rock the stadia matter as much as the rock and Sade was ill served by the Ally Pally, which, in its renovated splendour, like a provincial Grand Hotel, is just too proper for a pop venue. When the audience rushed to the front on the belated appearance of the star they were sheepishly herded back by bemused looking security guards.

For a time it looked as if the performance would be halted, but Sade, who has picked up some much needed sophistication during her foreign travels, ploughed gamely on and won the night. Looking Egyptian, wound in white, she purred through her songs of the torture of love with that innate sadness which makes her such a solace in the bed sitters of the world. The band was excellent and while the range, both musically and emotionally, may be small, the impact is intense.

But some time fairly soon Sade will have to learn to laugh. There is a melancholy about even her liveliest songs, although she looks more comfortable on stage and even attempted to move during "Cherry Pie". For the audience moving was hardest after the shows: at Wembley it took two hours to leave the car park - time for Springsteen's adrenalin boost to drain away.

Arts Guide

June 24-30

MUSIC

LONDON

Scharoun Ensemble Berlin. Members of the Berlin Philharmonic Orchestra play Mozart and Schubert (Mon); Dvorak, Isang Yun and Beethoven (Wed). Queen Elizabeth Hall. (928 3191)

London Choral Society and London Mozart Players, conducted by Jane Glover, play Stravinsky, Mozart and Bruckner. Barbican Hall (Mon). (638 8891).

Philharmonia Orchestra, conducted by Owain Arwel Hughes with Penelope Thwaites, piano. Mendelssohn, Mozart and Beethoven. Barbican Hall (Wed).

London Symphony Orchestra, conducted by Paul Freeman with Sequeira Costa, piano and James Campbell, clarinet. Tchaikovsky, Mozart, Rachmaninov and Enesco. Barbican Hall (Thur).

John McLaughlin Trio with Jeff Berlin, bass and Trilok Gurtu, percussion. Royal Festival Hall (Thur). (928 3191).

PARIS

Orchestre National de France, conducted by Rudolf Barshai, with the Radio France Choir. Beethoven (Tue). Théâtre des Champs Elysées. (47.20.36.37).

Ensemble Orchestral de Paris, conducted by Philippe Herreweghe, with the Choeur de la Chapelle Royale, Collegium Vocale de Gand. Haydn, Beethoven (Tue). Salle Pleyel (45.63.88.73).

Orchestre de Paris, conducted by Sir George Solti. Bartok, Beethoven (Wed, Thur). Salle Pleyel (45.63.07.96)

CHICAGO

Ravinia Festival, 53rd season of the summer home of the Chicago Orchestra opens with a jazz programme by Percy Jones and Earthworks (Tue). (728 4642).

NEW YORK

Orchestre Symphonique de Montréal, with Charles Dutoit conducting. Lutoslawski, Debussy, Prokofiev (Mon). Carnegie Hall (247 7800).

Bach Aria Festival and Institute. All Bach programme (Mon). Merkin Hall (362 8719).

Paragon Ragtime Orchestra. Special July 4th concert (Wed, 12.30, free). Juilliard Concerts at the IBM Garden Plaza, 56th & Madison.

Electric Phoenix, Neely Bruce, Luciano Berio, Trevor Wishart, Daryl Runswick, William Brooks (Wed). Merkin Hall (362 8719).

FLORENCE

Leipzig Gewandhaus Orchestra, conducted by Kurt Masur. Wagner, Schumann, Beethoven (Wed); Mendelssohn, Mozart and Brahms. Teatro Communale.

Spoleto. Chamber concerts every day of the Festival at the Teatro Caio Melisso (midday) and the Teatrino Delle Sei (at 6 pm). (40265).

NETHERLANDS

Amsterdam, Concertgebouw. Klaus Tennstedt conducting the Concertgebouw Orchestra, with Jakob Slagter, horn. Mozart, Mahler (Thur). (718 345).

Rotterdam, Doelen. The Rotterdam Youth Chamber Orchestra and the Greater Baltimore Youth Orchestra, conductors Josef Schebal and Christopher Wolfe, with Daniel Wayenberg, piano: Cimarosa, Mozart, Dvorak (Mon). Claus-Peter Flor conducting the Rotterdam Philharmonic Orchestra and Choir and vocalists: Mozart (Wed). (413 2490).

Utrecht, Vredenburg. Klaus Tennstedt conducting the Concertgebouw Orchestra, with Jakob Slagter, horn. Mozart, Mahler (Wed). (31 45 44).

Hymns/The Place

Clement Crisp

Ever since he joined the Royal Ballet nearly a decade ago, Jonathan Burrows has shown an enquiring creative gift. He has made dances for workshops, and in 1983 he staged *The Winter Play* for Sadler's Wells Royal Ballet. Over the past three years he has been assembling a choreographic essay, *Hymns*, seen in its entirety for the first time on Thursday at The Place.

It is influenced by his interest in attitudes more usual in post-modern dance than in classicism, just as in earlier pieces he has explored the possibilities of folk-dance. In *Hymns* we see non-dance as dance, contact improvisation, the demotic of movement and gesture as a formal language. The result is a curiosity, but one that catches the imagination.

The piece is short, lasting, with an interval, just one bour. Its first part finds two Royal Ballet dancers, Jeremy Sheffield and William Trevitt, joined by William Tuckett, still a student. They wear grey striped pyjamas, and as some beguiling Brazilian jazz (by Wilson Simonal) is played, the three seem involved in a ritualistic encounter. Movement is small-scale, deliberate, trance-like, as they sketch steps, or perform a vestigial shimmy, or hold and catch each other. Nothing happens, yet much happens, as fragments of dance emerge from walking and poses. Hypnotic, inexplicable, finely planned and performed, it lingers in the memory.

The second part, whence comes the work's title, is danced to six Ancient and Modern delights, including "The day Thou gavest" and "Onward, Christian soldiers" performed on a piano. Mr Burrows and Simon Rice wear dun-coloured outfits that look as if they ware made for foundling boys. Their actions extend the earlier language of the piece, making fluid seqnences of miming that are in part a response to the words of the hymns, in part a free association of figurative movements.

They take steps to absurdist lengths, sketch others, drive small ideas to dangerous extremes. It is all very odd, and touches the edges of our understanding of what dance may be. It appears to me to be a stndy about working methods and about how choreography can be made, and I trust that the Royal Ballet will allow Mr Burrows to develop his ideas for the stage.

Lohengrin debut

Paul Frey, the Canadian tenor who took the title role in Werner Herzog's production of *Lohengrin* at the 1987 Bayreuth Festival, is to maka his London debut as Lohengrin with the Royal Opera on June 30. Eberhard Büchner is *ill but hopes to sing in later performances*. René Kollo is only able to sing on July 13.

FINANCIAL TIMES

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Next step for the EMS

MOST PEOPLE in the UK seem unaware that, in the debate about full participation in the current European Monetary System (EMS), they are wondering whether to catch a train that is already leaving the station. The principal participants in the exchange rate mechanism of the EMS have recognised that it cannot survive, unmodified, in the new world of free capital flows.

They have also concluded that the system must become more, or less, rigid. *In France, in particular*, there is a national consensus on movement in the former direction, the end being a European monetary union. In the light of history, it is this issue that is likely to be the most important item on the agenda of the EC summit, starting today.

It is when one looks at the detailed proposals under discussion – for example, the programme recommended by a committee under the chairmanship of Giscard d'Estaing and Helmut Schmidt (the founders of the EMS) – that one detects a *certain schizophrenia. Those proposals* are much concerned with the establishment of a European central bank and wider use of the Ecu. Yet these two elements are neither necessary nor sufficient for the next steps towards a European monetary union. Indeed, they could well serve as a time-consuming diversion, not least because ratification of a new treaty would be required.

Monetary discipline

The schizophrenia is evident in France. A consensus has emerged *against the historical policy of* depreciation. In this respect, the French have become more German than the Germans. At the same time, there is a desire, hidden under the code-word "symmetry", for the Germans to become more expansionary. Meanwhile, the Germans do not wish to rebuff the French, but are determined that new *European arrangements will not lead* to loss of monetary discipline.

It is necessary to draw a distinction between the demands of economics and those of politics. The economically-desirable next stage in the evolution of the EMS would be for a number of countries – probably, Germany, the Benelux and France – to commit themselves to maintaining irrevocably-fixed exchange rates *vis-à-vis* one another.

Such a system could be managed perfectly well if the participants (other than Germany) were simply to buy and sell their national currencies against the D-Mark at a fixed price. The result would also be a satisfactory monetary policy, because the long-standing achievement of the Bundesbank – price stability – is the most valuable asset of *any monetary system*.

It is essentially for political reasons that this solution is rejected, the alternative being the development of a common monetary policy. A European central bank would be a politically attractive way of determining such a collective policy, but it would be economically desirable only if it were to repeat the characteristics of the Bundesbank: independence, a commitment to monetary stability and strong central management.

Two-tier Europe

It would, in fact, make sense if, around the core participants, there were a periphery of countries involved in a somewhat more flexible exchange-rate mechanism than at present. There would then be a two-tier Europe. The core countries would develop the practices of monetary co-operation in mutual consultation, the ultimate goal being introduction of a new, common currency and a new central bank. The remainder would earn the right to full participation only if they were to accept the *fundamental discipline of irrevocably-fixed exchange rates*.

There is probably nothing that would give Mrs Thatcher more pleasure than to see discussion of complex and, at present, unnecessary institutional reforms. Far more sensible would be the development, by a few countries, of co-operation based on fixed exchange rates. It would then be for the rest to weigh up the advantages of greater monetary sovereignty against loss of influence over the direction of the monetary system as a whole. For the UK, at least, the dilemma would not be unprecedented, since this would be yet another Community train leaving the British behind in the station.

How to pay for television

BROADCASTING provides a key illustration of the difference between a genuine market-promoting policy and one of trying to please, or hold the ring between, particular commercial interests.

The latest example is the spate of ideas concerning the future of the BBC. One idea floated by Lord Young, Trade and Industry Secretary, is that BBC2, the Corporation's minority and cultural channel, should together with ITV's Channel 4 be transmitted via the British Broadcasting Satellite. This would leave the two terrestrial channels free for advertising financed programmes and thus reduce the price of advertising time of which some companies complain so bitterly.

Two channels

Lord Young's colleagues scotched the idea of making the transfer within three years; and for the moment the suggestion is that the two channels should be available both over the air and as a high definition subscription (Pay TV) service on the satellite. But the original aim is still in place.

There is almost nothing to be said for it. If the idea is to make viewers pay for specialised channels or programmes, it could be achieved more cheaply by scrambling the terrestrial programmes, as the Home Secretary, Mr Douglas Hurd, has suggested in what amounts to a rival manifesto.

Lord Young's proposals might be aimed at increasing the market for British Satellite Broadcasting, the company allocated three out of the five frequencies on the British Direct Broadcasting Satellite, and whose prospects could be affected by the forthcoming *Luxembourg-based* medium-powered Astra satellite on which Mr Rupert Murdoch is to take up to four channels. For if BBC2 and Channel 4 were only available on the BSB satellite, viewers would have an additional motive to buy a reception dish.

The relative merits of rival satellite programmes and reception systems are however surely for the viewer to decide.

The role of Government policy should be to facilitate the functioning of the broadcasting market by insisting on a common standard so that the same equipment can be used to decode all Pay TV, whether terrestrial, cable, or satellite. The Government has no business picking favoured companies or identifying itself with ventures which – not always correctly – are expected to make more use of British equipment.

The Hurd proposal that subscription should ultimately replace the BBC licence fee is much more worthy of consideration. In a world of numerous rival channels it will become *more and more difficult to justify* forcing the taxpayer to pay through the licence fee for a massive network of television and radio services, covering everything from light entertainment to the occasional genuinely cultural programme, whether or not he wants to watch it.

Nevertheless, this is an issue that should be played long. When the Peacock Committee recommended subscription for the BBC in the medium term, this seemed the only way of launching the subscription idea within a reasonable time. Since then the pos*sibility has emerged of at least* one, and probably more, additional terrestrial channels. These could be financed on a pay-per-view or pay-per-channel basis. The decoding equipment would be inexpensive provided that it arrived already installed in new television sets.

There is, moreover, a core of informative or minority programmes, which may never be profitable in the market place, but which citizens will still want to have in their capacity as voters. For programmes of this sort some residual tax or licence fee finance will always be necessary.

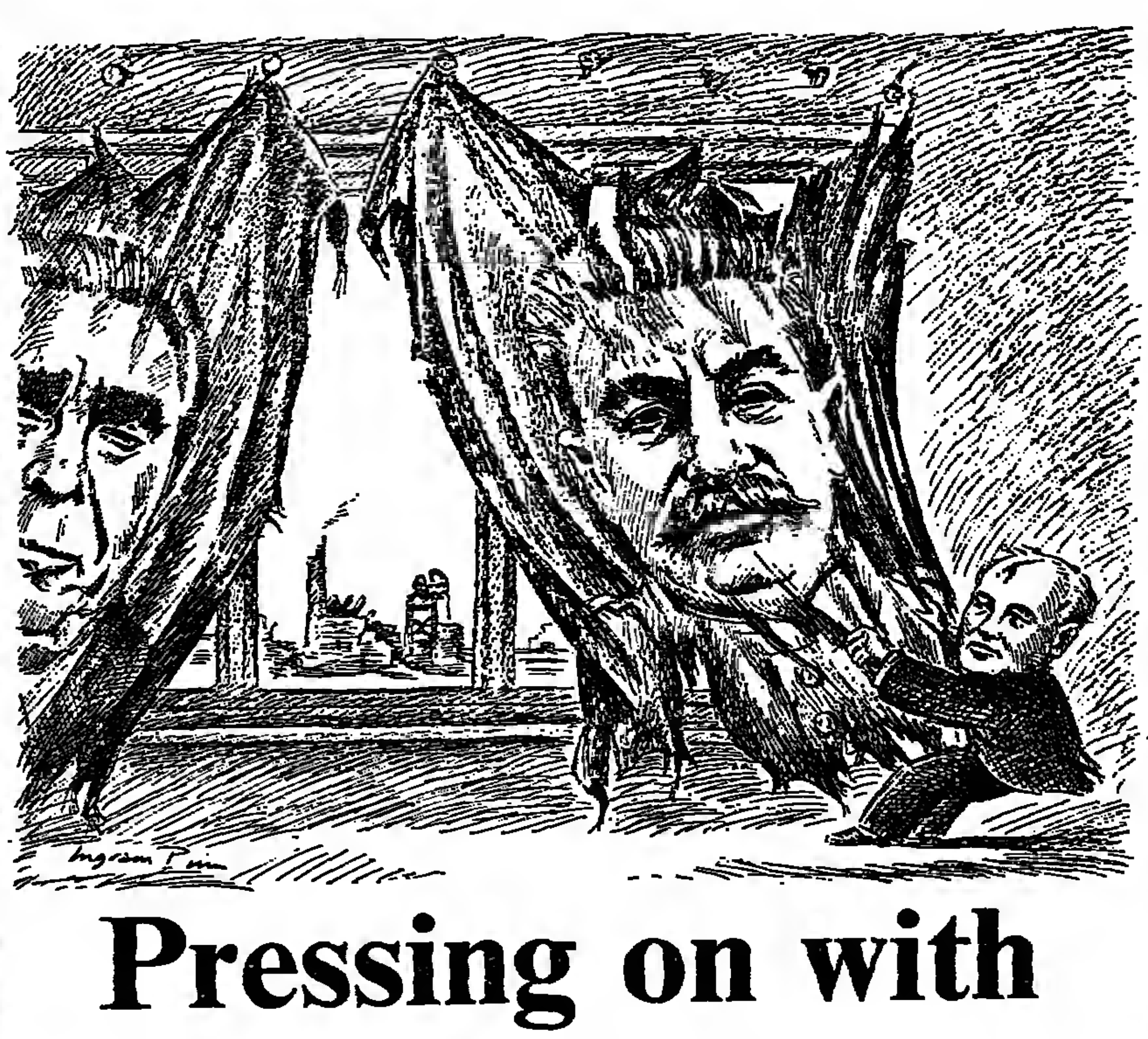
Before contemplating running down the BBC, the Government must be very sure that the Arts Council of the Air suggested by Peacock really is in place and that there really is a multiplicity of competitive channels on which pay-per-view as well as pay-per-channel is available.

Gradual process

Subscription to the BBC can a gradual process. The Home Office consultants themselves suggested encoding some late-night and weekend BBC2 programmes. But if the BBC simply insists that every kind of fill-in programme, which it cannot afford to finance properly from the licence fee, should always be universally available, it will be only playing into the hands of Lord Young.

Quentin Peel sets the scene for the Soviet Communist Party's extraordinary conference, starting tomorrow

Pressing on with perestroika



WHEN Mikhail Sergeievich Gorbachev takes the stand to deliver his report tomorrow to the 19th All-Union conference of the Soviet Communist Party, he looks to be on a hiding to nothing. Objectively, his position could scarcely look bleaker.

He will be facing more than 5,000 of the party faithful, supposedly elected for their commitment to his reform programme of perestroika – the restructuring of the Soviet economy and Soviet society. In reality, the vast majority are men and women who have become totally accustomed to the privileges and power associated with the exclusive position of the ruling party, people for whom the whole reform process is a threat, not a challenge.

Yet Mr Gorbachev intends to present plans for the democratic reform of the Party, and of the other institutions of government, radical enough to open up the entire ossified structure of Soviet bureaucracy to new ideas and outside influences.

At the same time he has to report on progress so far with his economic reforms – the programme instituted by the 27th party congress which is supposed to galvanise the stagnating Soviet economy by reducing the role of state planning, encouraging plant-level initiative, and promoting a new private sector in the co-operative movement. He has to propose where that whole process is leading and what the steps must now be taken to make it irreversible.

He will have to admit that the results so far have been miserable, with Soviet citizens facing if anything more chronic shortages of foodstuffs and consumer goods in the shops, declining exports and imports and a rump of thoroughly disgruntled ex-bureaucrats who have been forced to quit their comfortable jobs for new and uncertain ones.

An opinion survey of 11,000 industrial workers – the very heartland of Communist Party support – carried out by the eminently reputable *Institute of Sociology of the Soviet Academy* of Sciences – shows a huge degree of popular cynicism about the prospects for genuine reform. More than 73 per cent of those questioned felt that so far "there are no conditions which would really ensure changes. Instead of real perestroika we are just having a lot of talk."

That is not all. Mr Gorbachev is also facing an upsurge in the demands of *national minorities, apparently encouraged* by his commitment to a far more open debate.

In Nagorno-Karabakh, the Armenian-populated enclave in Azerbaijan where a general strike has left the authorities out of control, he has to show the wisdom of Solomon to mediate between the conflicting demands of Armenians and Azeris. Crimean Tatars refuse to drop their vocal demand to recover their *national homeland*, from which they were deported by Stalin. In the Baltic republic of Estonia, the local Communist Party has espoused a plan for radical economic and political independence from Moscow.

All of these can and will be used by conservatives in the Party, communist traditionalists, to argue that the whole process of glasnost and liberalisation has already gone too far and has begun to threaten the central authority of both Moscow and the party itself.

Only in foreign affairs can the general secretary point to clear successes. The INF treaty to scrap medium-range nuclear missiles is now sealed as well as signed and the Moscow summit with President Reagan was well-received at home.

However, the withdrawal from Afghanistan, while itself welcomed by *the man in the street*, is *in danger of* going wrong. It could turn from statesmanship to impotence if the Afghan guerrillas rapidly overthrow the Soviet-backed regime in Kabul.

Yet against all this gloomy background, Mr Gorbachev is reliably reported to be preparing "a bombshell", making no important concessions to those urging caution. Dividing his time equally between his home and the Kremlin, he has written a speech on the progress of perestroika unsupervised by any except his closest colleagues in the Politburo.

He presents a public image of a man still supremely confident of himself and his position, looking at once by far the most relaxed and the most energetic of the Kremlin leadership. If it is true that a great battle between radicals and conservatives is going on in the Politburo itself, no sign of it appears in public. *From that point of view, Mr Gorbachev* is very much in charge.

That is not to say that he does not face a challenge. The positive enthusiasm with which Mr Gorbachev has embarked on a process which promises the most dramatic changes in Soviet society since the mass collectivisation and industrialisation of Stalin – possibly since the 1917 revolution – is clearly not shared by all his colleagues.

When his tough-talking deputy Mr Yegor Ligachev publicly pledged his support two weeks ago, it was in terms, and in a tone, which showed that he is by no means so passionate about the "social revolution" which the proponents of perestroika preach. Mr Gorbachev blames failures of Soviet policy and mentality for the stagnation of Soviet society. For him reform begins at home. Mr Ligachev seemed to think *the biggest problem was malign influences from abroad*.

What has happened in recent months is that Mr Gorbachev has certainly won a propaganda battle, but he has by no means won the war. The publication of a "conservative manifesto" in the newspaper Sovyetskaya Rossiya back in March – a full-page article by a Leningrad teacher, defending the achievements of the past – produced such an outcry from the reformers that no one has since dared to *criticise* the perestroika line in public.

Moreover that clash has caused the reformers to redouble their rhetoric and use the information revolution of glasnost to bring ever more radical plans into the open. At the same time, the onslaught on the mistakes and evils of the past – the exposure of the crimes of Stalin, the demolition of his reputation as a great war leader, and *the revelation of incompetence* and corruption during the Brezhnev years – has been dramatically stepped up.

The reformers seem to believe that they can shock the old party functionaries into accepting reforms, including a time limit on holding office (the one formal proposal of the theses), possibly an age limit (65 for most and 70 for the politburo?), multi-candidate elections, and more public debates. To do so they *must prove that the stagnation of the* Brezhnev years, and the failure to restrain the dictatorship of Stalin, were functions of an undemocratic party, and not just aberrations of individuals. Such thoughts have only just begun to percolate into the columns of the press.

As for precipitating more radical economic reform, Mr Gorbachev and his advisers argue and believe that the reason for the lack of progress to date is *the very fact that the present changes* only go one small step of the way.

"The situation has not matched our expectations, because of the half-hearted nature of the reforms," says Dr *Pavel Bunich*, chairman of *the scientific council* of the Soviet Academy of Sciences. "The reforms for dealing with the state sector are extremely modest. They remain half measures. Self-financing, self-government and self-planning virtually do not exist."

The difference between the reforms of Mr Gorbachev, and the attempted reforms of his predecessors like Mr Khrushchev in the 1950s and Mr Kosygin in the 1960s, is that he sees the hopes for economic reform as inextricably linked to political change. As recent studies of the Khrushchev years suggest, it was the failure to involve a wider public in the reform process, and a failure to dismantle the totally centralised party and government structure inherited from Stalin, which finally put paid to his attempted changes.

The *nomenklatura* – the crucial and privileged middle-ranks of the ruling party and bureaucracy – eventually rejected Mr Khrushchev when he threatened their position. Now Mr Gorbachev must persuade representatives of exactly the same group, assembled as conference delegates, that they have no choice but to agree to curb their powers.

Thus the agenda for the party conference is *twin-track: economic analysis* and reform is the first theme, democratisation of the party and government is the second.

The economic argument remains a crucial element, if anything more crucial because of the failure to show any significant results so far. It is the one issue on which the Politburo itself is known to be relatively united.

The two key planks of economic reform *to date have been the law on* state enterprises, introducing "profit and cost accounting" to the majority of such concerns; and the law on co-operatives, opening up economic activity to what is simply private enterprise by another name. So far, however, it is very early days to judge them.

The problem for the state enterprises is that while they are now expected to be more independent in both purchasing and sales policies, and thus effectively self-financing, their lives continue to be dominated by state purchasing and supplies and fixed prices.

As for co-operatives, they are only just beginning to account for a tiny proportion of economic activity, employing perhaps 200,000 people. Expectations about what they can do far exceed their present capacity.

Leading economists now argue that faster progress cannot be made until the planning controls are further relaxed, and price reforms introduced. The next phase – which the conference may well be asked to approve – is supposed to include an overhaul of the whole banking and credit system, to introduce such hitherto unheard of concepts as rationing credit through interest rates, and banks competing for business.

The need for economic reform in the Soviet Union today is a statement of the obvious. A damning analysis of the state of information technology in the country, published in the party newspaper Pravda this week, spelt out in words of one syllable how far the USSR has fallen behind the US, Japan and western Europe. They are introducing integrated circuits for information exchange. "We have not even begun such a process," it said.

The link to glasnost and greater democracy is also made clear for all the delegates to read: "the general accessi*bility of information is an all-important* condition for broadening democracy, developing glasnost, allowing our people to actively exploit the latest information and knowledge, to improve production performance, scientific research, political and personal life."

Mr Gorbachev now has to persuade the party faithful of the need to make that link: that without genuine democracy in party life – within the one-party system, *of course* – there can be none of the flexibility and openness in the entire Soviet system necessary to compete in the world economy.

The same link is made with honesty about the past: that without a willingness to fill in the "blank spaces" of history, to reveal the true population figures for the 1930s, showing just how many people died in Stalin's forced collectivisation and purges, future planning becomes impossible.

The reformers hope and believe that Mr Gorbachev will not pull any punches in his condemnation of both the Stalin and Brezhnev years, as he did last November at the 70th anniversary celebrations of the Revolution. They need to shock the party faithful out of any complacent belief that they can still go backwards.

Their biggest fear now remains the danger that the nationalist backlash, that by-product of glasnost, will upset the process.

In itself, the demands of Nagorno-Karabakh are not too disastrous for the party. Its population simply wants to be transferred from one republic to another, maintaining a common link to the central state.

The demands of the Baltic states are more difficult, for they call for some *genuine devolution of power* from Moscow. In itself that is not necessarily at odds with Mr Gorbachev's economic reforms, but it is a problem which has come before its time. It could scare the cautious back into the trenches.

Indeed, it is the one issue which could threaten the position of the Soviet leader himself. He desperately needs to buy time from the nationalists, in order to produce the economic *results he needs to keep the whole* reform process going.

OBSERVER

Not really so very rich

■ While the Prime Minister, with rare support from the Prince of Wales, considers whether it is worth pursuing her attempt to land the art collection of Baron Heini Thyssen-Bornemisza for Britain, one crucial aspect of the *affair* has been rather over looked: the money.

Baron Thyssen is not giving his collection away: he is selling it. He wants at least £100m, as *well as a smart new museum to* house it. He originally expected the local council in his Lugano home to provide a new gallery at his *Villa Favorita*, where most of it is kept. The extension designed by British architect James Stirling proved too expensive for the Swiss councillors, and in the meantime the Baron's own financial affairs took a turn for the worse.

The family fortune, and the purchase of most of the important Old Masters, was made by his father out of steel: much in demand in Germany in the 1930s. Now it comes from investments in the US, plus interests in the Port of Rotterdam and the Heineken brewery. It is under the control of the Baron's son, Georg Heinrich, with the help of daily calls from his 66-year-old father. In the last few years there has not been enough surplus cash for Thyssen to add any masterpieces to the collection.

If he wants to buy an important picture he has to sell some or borrow from the bank. His most costly acquisition, a $6m Tintoretto, was secured by swapping a Rembrandt and a smaller Tintoretto. Although a director of Sotheby's, he is often outbid on pictures that interest him, like a Braque which sold at auction for £6.6m – way above the Thyssen limit.

In recent years he has switched his attention to cheaper sectors with potential. He may have made a killing out of buying German *Expressionists*, now much sought after, in the 1970s. He is currently interested in 17th century baroque art which he thinks is under-priced.

It is unlikely that Britain will play permanent host to the Thyssen pictures. He has already assigned them to Spain – his fifth wife is Spanish – for at least 10 years, and although a great Anglophile, with homes in Chester Square and the Cotswolds, it would take an unrefusable offer to make him change his mind. Besides, with British galleries and museums somewhat starved of cash, it would be a political risk for the Government suddenly to find the cash to meet a millionaire's ransom.

"Six Europenny worth of chips, please."

Lawson's cents

■ Chancellor Lawson, no less, is giving his support to a new appeal being launched today by Help the Aged. The idea is to make money out of all those spare foreign coins you bring back from foreign holidays.

The main sponsor is Texaco which will have collection drums at its main filling stations. Securicor will guard the cash and Thomas Cook will supervise the exchange into sterling. British Rail, the building societies and local radio stations are all joining in.

The Chancellor starts it off by throwing in a few coins of his own - no doubt left over from the trip to Toronto last week.

Inner city man

■ Eric Sorensen, the civil servant who has spent nearly a year at the Cabinet Office pulling together the Government's multiple inner city programmes and servicing the committee chaired by Margaret Thatcher, is returning to the Environment Department.

He will become personnel officer with special responsibility for grooming divisions deemed suitable for hiving off as separate agencies along the lines proposed *in the Ibbs report, perhaps as a* prelude to privatisation.

Sorensen seemed an ideal candidate for a private sector job. He was appointed by Michael Heseltine to lead his Merseyside Task Force in the first heady days of the Conservative Government's involvement in the inner cities. He returned to head the inner cities division, presided over a wealth of schemes involving the private sector and ensured that Environment secured the lion's share of the inner cities budget.

He says he considered working outside government, but "*nothing suitable came up*."

Meanwhile, returning to Liverpool recently, he had the satisfaction of accompanying Kenneth Clarke in opening a new business in the Wavertree Technology Park. His old boss Heseltine "assisted" in the ceremony, as the commemorative plaque records.

Cost of a suit

■ The top price for a made-to-measure suit in Tokyo is about £1,200. For ready-to-wear it is around £750. Neither are wildly out of line with top prices in London.

Tokyo, however, is heading for new highs. Henry Poole of Saville Row is preparing to supply the Japanese market with 30 ready-made suits which will retail at around £1,500 each.

It is the nature of the cloth that puts up the price. The wool won the Gold Medal award for the best Merino in New South Wales last year. The Halifax spinners, Joseph Lumb, turned it into yarn and *Moxons of Huddersfield* wove it into 90 metres of cloth which is now going to Henry Poole. The pattern is 11oz charcoal grey rope-stripe.

Poole has had a contract to supply ready-made menswear and accessories to the Matsuzakaya Company and its department stores in Japan since 1964. Its catalogue of very British-*looking stuff is available in Japa*nese.

Real Red Lion

■ The flood of foreign visitors to Moscow these days has meant booming business for the Red Lion, the first British pub in the Soviet capital. So much so that only two weeks into a month's trial period, the sponsors have decided to make it a permanent fixture.

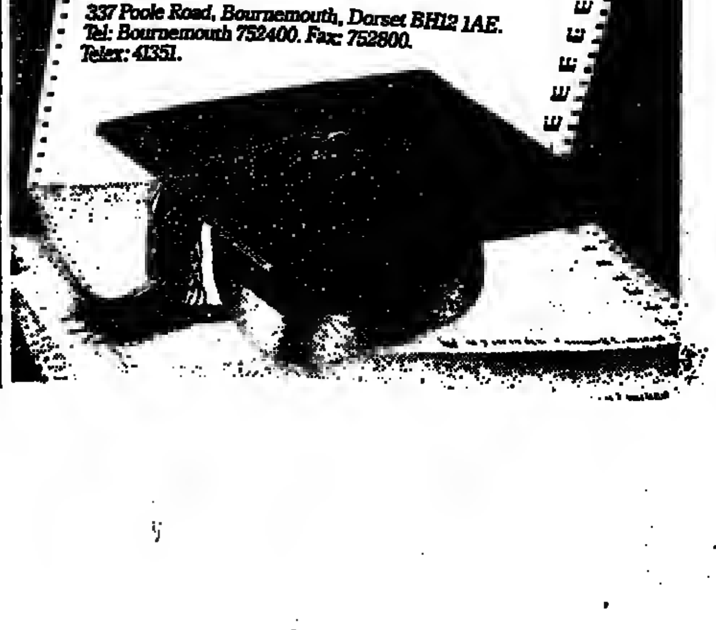
The exercise bears no relation, however, to glasnost and perestroika, because you can't go in unless you have foreign currency, and Soviet citizens are not supposed to. It competes for tourists in the same hotel, built by Armand Hammer, with a German Bierkeller, a Japanese *sushi* restaurant and even cajun cooking from New Orleans.

The Russian barman said yesterday that the popularity of the pub had nothing to do with his pints. "If the hotel is busy, then the bar is busy. If the hotel is empty, then I won't get any customers."

Mixed up numbers

■ Is this definition too kind?

An economist is someone who, if you have forgotten your telephone number, will give you an approximation?



David Buchan, William Dawkins and Tim Dickson ask what makes a good EC commissioner

The changing of the guard

THE BRUSSELS grapevine is buzzing with speculation about the next European Commission – or more specifically about the 17 men or women who will take over as new Commissioners on January 1 next year.

The key position, that of Commission president, seems already spoken for. The presidency is the only one of the Commission jobs which, formally, is decided collectively by the 12 community governments. When they meet this week in Hanover, EC leaders are expected to re-ordain Mr Jacques Delors as president.

They already appear to have reached an informal consensus that no better presidential alternative has presented itself than the 62-year-old French socialist. In the past three and a half years, he has helped to force through soma of the biggest policy changes in the Community's history. The only question has been whether Mr Delors wants to keep his job. He would have jumped at the chance of returning to Paris as prime minister. But the call never came. So he says he is happy to stay in Brussels.

The guessing-game, therefore, focuses on the other 16 seats in the new Commission. The choice lies with individual national governments. The larger five (Germany, France, Britain, Italy and Spain) have two commissioners each in their gift and the rest one each. A few of tha names are already known and by early autumn, they will all be.

What is clear at this stage is that the very success of recent reforms in the Community has made the dispatch of the right man or woman to Brussels even more important than it was four years ago when the last full Commission was formed.

The Commission is more influential than it used to be in getting legislation through the Council of Ministers, which now takes more decisions by majority, rather than by unanimous, vote. Enlargement to 12 through the advent of Spain and Portugal means the Commission is more frequently looked to (by the government holding the rotating Council presidency) to provide the necessarily more complex compromises. Enlargement has also made it harder for the Council to achieve the unanimity it needs in order to throw out a Commission proposal. Finally, the Commission has gained further management powers delegated from the Council, which is increasingly unable to keep up with the details involved in implementing policy decisions.

What, then, is the "right sort" of commissioner? "Governments should not send people they can easily spare at home," says one veteran Brussels hand, mindful of the way the Commission has sometimes been used as a dumping ground in the past.

An experienced EC diplomat offers a positive definition: a commissioner should be "a cross between a senior civil servant and a politician." This is because of the need for commissioners to master highly technical EC dossiers, to have the political nous to distinguish which ideas will fly and which won't, and to push proposals through the full 17-memher Commission and the Council.

This definition has the merit of pinpointing why France, as admitted by all, has the most consistent track record in sending good commissioners to Brussels. In tha Frencb system high-flying graduates from the *écoles polytechniques* or academics often "parachute" into tha *cabinets* or private offices of ministers, and thence into politics on their own account. Via this career routa have Raymond Barre, François-Xavier Ortoli and Jacques Delors come to Brussels.

France is the only member state where politics regularly works in this way. In other countries, however, things occasionally follow this path, which helps explain the success of certain non-Frencb commissionera. Before becoming an immensely influential EC industry commissioner (1977-84), Viscount Etienne Davignon was a Belgian diplomat, though one endowed with natural political flair. Given the political spoils system in the Belgian civil service, his like could re-emerge from that country.

More to the immediate point, the acclaim which Lord Cockfield, the internal market commissioner and progenitor of "the 1992 programme", has won from all except his own UK government must in part stem from the oddity – in British terms – that he came to politics from a long tax career in the Inland Revenue, as well as business. It can, in fact, be argued that all those in the current Commission who have done well in the more complex portfolios have some professional qualification.

Of course, there are exceptions to tbat rule. Mr Karl-Heinz Narjes, the current EC industry commissioner, is a former *chef de cabinet* of Mr Walter Hallstein (tbe first and mnch venerated Commission president) and a former economics minister in Schleswig-Holstein. Ha would seem to fit the bill. But he has done nothing to alter the criticism of West Germany for not sending Frencb-style heavyweights to the Commission. Mr Martin Bangemann, who will be forsaking the Bonn economic ministry for the Commission next year, though a more senior figure in West German politics, remains burdened by the widespread feeling in Bonn that he is being dispatched to Brussels to get him out of the way.

Having 17 identikit technocrats occupying the 13th, or Commissioners', floor of the Berlaymont building might well be a recipe for disaster. Different EC jobs reqnire different skills – an extrovert for external relations and a details man for the budget. More than that, there is a need for generalists in the Commission. Indeed that is required to some extent of all commissioners, who are supposed to form a "college" making collective decisions. In the regular Wednesday sessions of the full Commission, members comment and argue on proposals arising out of each other's dossiers.

Personality, rather than technocratic skills, can make a big difference here. For instance, Mr Lorenzo Natali, is, by all accounts, particularly closely listened to. This is not because be is charge of the relatively minor area of development aid, but because, now in his 12th year as a commissioner, be has acknowledged political savvy. Indeed be plays something of tbe wise uncle to Mr Delors

Mr Natali also happens to be the *de facto* leader of the Christian Democrat group in the Commission. This grouping, whicb inclndes the continental European conservatives, plus Mr Peter Sutherland, the Irish competition commissioner, but minus Lord Cockfield, keeps regular contact with Christian Democrats in the European Parliament – more so than do the Socialists in the Commission. Bnt these connections are more social than anything else. It is noteworthy – and indeed ironic, given the careful party political balance of appointees to the Commission – that the Commission divides far more on national, or north-south, lines.

Commissioners take office on an oath of independence from outside influence or commitments (unpaid as well as paid). All commissioners put in tbe occasional plea for understanding on behalf of their government – that is considered quite legitimate. Some, however, seek to bend the rules on their government's behalf, particularly on the acutely sensitive issue of state aids. Equally, some governments vent general displeasure with the Commission on "their man" in Brussels.

Bnt these are risks which would-be commissioners consider worth running. Indeed the national pressures on a commissioner are a sign of the institution's growing importance.

Jacques Delors | Frans Andriessen | Lord Cockfield | Henning Christophersen | Lorenzo Natali | Peter Sutherland

MR JACQUES DELORS has let it be known that, if renominated as President, he would like a say in the formation of his new team. But he is like the captain of a football side that has 12 different managers in tha shape of national governments. He might like to keep the "stars" and put the "duds" on the transfer list. He cannot, however, really pick the other players, though he can influence which positions on the field they play.

Mr Delors would be the first president (since the days of Walter Hallstein, the first EC president) to serve for more than the four years of a single Commission. Banking on the generally good track record of his current Commission, he will discreetly urge governments to keep in place those key commissioners who have formed his "kitchen cabinet" – Frans Andriessen, Henning Christophersen, Lorenzo Natali and Lord Cockfield. Despite their sometimes strained personal relations, he might even put in a word for Peter Sutherland.

Of this group, tha first two seem sure to stay. Natali is likely to retire, and the last two are very doubtful.

Sutherland is from the wrong party (Fine Gael) to suit his prime minister, Charles Haughey of Fianna Fail. Despite his undoubted ability as perhaps the best EC competition commissioner ever, Sutherland's campaign to portray renewal of his term as Ireland's best shot at the Commission presidency has not gone down well in Dublin.

Lord Cockfield presents Mrs Thatcher with a dilemma. She sees him and his tax plans as dangerously inconsiderate of UK interests, bnt he remains Britain's best hope of retaining the vital "internal market" portfolio. She may well reappoint the other UK commissioner, Mr Stanley Clinton Davis, a former Labour MP.

Top of the Delors transfer list would be Nicolas Mosar of Luxembourg and, not far behind, Carlo Ripa Di Meana of Italy. Their governments will ensure they will both stay, however.

A few other new commissioners are already known, including Mr Martin Bangemann, the current German economics minister. A by-product of the recent Belgian coalition switch is that Mr Karel Van Miert is to replace Mr Willy De Clercq (currently in charge of EC external affairs) for that country.

The two Spaniards – Manuel Marin and Abel Matutes – will stay to help their country run its first presidency of the EC Council of Ministers in the first half of next year. The EC is to get its first woman commissioner, Greece's Miss Vasso Papandreou (who is no relation to the Greek Prime Minister). She is in her mid-30s, and is currently the Greek foreign trade minister.

The frustration of the Iberian latecomers, and of some others, at not being given enough to do reflects the fact that there just are not 17 decent dossiers.

One of Delors' hardest tasks later this year will be to combine efficieocy with equity when it comes to apportioning jobs and slicing the Berlaymont cake 17 ways.

Lombard

Confessions of a schoolboy

By Michael Prowse

SCHOOLS are remarkable: they steal the best years of our childhood, but they seem to give us very little in return. I was a fairly conscientious pupil at a well-regarded grammar school. But, by the time I left for university, I had learned very little.

I could not speak a foreign language. My knowledge of history was confined almost exclusively to the Tudors and Stuarts and the period 1785-1914. I knew nothing about human anatomy, having given up biology at the age of 13. I was not taught formal English grammar. I studied no literature beyond the age of 16 and precious little before that. Art and music were unexplored worlds. I was not taught to read music and learned little about the major composers. I was not taught bow to draw and knew next to nothing of the history of Westero art.

My schooling did not inclnde tuition in economics, finance or politics. I barely knew what capitalism was and certainly bad no detailed knowledge of alternative economic systems. I knew nothing of supply and demand nor of the case for free markets. I was taught nothing about the great disparities in income and wealth in the UK – nor of the possible justification for them. I had no knowledge of personal finance. I was ignorant of political institutions. I didn't understand bow Parliament worked nor what went on in the City.

Sex education

Most of the time I was the passive recipient of information. I was taught, in a limited way, to express myself in writing. But verbal expression was almost entirely neglected: there were no courses in public speaking. I was obliged to attend divinity lessons, which usually entailed a historical study of the Bible, but was not encouraged to think seriously about moral issues. Ethics was not on the curriculum. Nor was sex education. There was no discussion of even simple psychological theories, such as Freud's work or behaviourism.

From the age of 16, I concentrated on only three subjects: pure maths, applied maths and physics. (I had wanted to study a mixture of arts and science subjects but that had been ruled out as "inappropriate".) But my grasp even of these subjects was really rather poor, resting less on true understanding than on facts and theorems mugged up out of textbooks.

This may be an uncharacteristic experience. Others may feel they benefited from a broad, balanced and relevant curriculum. State schools may have improved dramatically in the past 15 or so years. The average school leaver may now be numerate, literate, a fluent French speaker, a confident public debater, self-aware, and knowledgeable about cultural, political and economic matters. Somehow I doubt it.

Narrow curriculum

Yet is this too much to ask? Children are in school for between 11 and 13 years. This provides a great many hours for academic study, self-development and preparation for the adult world. The problem is that the curriculum is unimaginative, narrow and anacbronistic.

Nor is there any reason to suppose that the Thatcher Government's new mandatory curriculum will help much. It may provide a slightly broader education up to the age of 16. But unless tbe quality of teachers improves dramatically (and wby should it, given the pay restrictions?) it will not ensure that pupils learn more in the time alloted. The Government, incredibly, is doing nothing to tackle the absurd over-specialisation still encouraged in sixth forms.

A fundamental reappraisal of what is taught in schools is long overdue. It is crazy to continue with subject divisions and priorities that were established in the late 19th century, when subjects like economics were in tbeir infancy. Mr Baker thinks geography should be compulsory up to age 16. But why is it more important to study volcanoes than supply and demand? Why must children study ancient religions but ignore modern theories of ethics? Why do they learn no psychology, even though this could be useful in later life? Why are politics and post-Second World War history not mandatory? Citizens are being cbeated and should demand their money back.

Letters to the Editor

Opting out of the NHS

From Mr Keith Tunstall.

Sir, We need to know more about the research backing David Green's assertions ("Why tax reliefs are not the same as opting out," June 22). Surveys of private health insurance demand carried out by the Institute of Economic Affairs (IEA) may or may not be a bedrock for deciding national health service (NHS) policy.

The deal offered by the NHS is – in effect – that you pay when you can, and you benefit in youth and old age when you cannot. Is that what was on offer in the IEA survey? There can be no opting back into the NHS at 76 when premiums are high and tax relief is low.

The deal offered by the NHS is national and comprehensive. Is that what was on offer in the IEA survey? There may be no opting back into the NHS when you have a car accident on holiday in Skye.

The deal offered by the NHS is a lifetime one. The fit, high income 40 year old may prefer to pay low premiums on health care rather than pay high taxes, but is it clear that with the present system he is paying for treating his son's concussion on the rugger field and his mother's hip operation? Was that reflected in the premiums implied in the research?

Finally, if the research has been carried out over 25 years, how far do the results depend on the appeal of tax relief at 60 per cent as against the current 40 per cent?

Keith Tunstall,
Maple Dawn,
Woodland Way,
Weybridge, Surrey

If intended for publication, letters to the Editor should include, where possible, a day-time telephone number.

Pollution and tree health

From Sir Hugh Rossi MP.

Sir, Select Committees are almost invariably composed of scientific laymen, and can only assess the evidence before them. We do not dispute Professor Mellanby's assertion (June 20) that "we still need to know much more about the normal situation in our woodlands, and about the effects of various factors, including pollution, on the health of our trees."

Indeed, at paragraph 54 of our report we recommend continued research in this area. What the Forestry Commission appears to be looking for in its own research is a strict causal connexion between air pollution and damage to trees; to establish this requires a long programme of very precise experimentation. We can understand why the Forestry Commission would wish to adhere to the highest technical standards in its research.

But the evidence which we received during the course of our recent inquiry suggests that, in the meantime, a reduction in air pollution would promote tree health by reducing the *overall* level of the combined stresses to which trees are subjected. This conclusion was accurately reported by John Hunt (FT, June 15).

Hugh Rossi,
Environment Committee,
House of Commons, SW1

Concern over funding for CTCs

From Mr David Battye.

Sir, The article by David Thomas on City Technology Colleges (CTC) made interesting reading ("Teaching secondary schools a government lesson," June 16). That the Government is so dedicated to a scheme which receives such small popular support is perhaps not unusual. There are many aspects of the developing system which should give cause for concern.

The cost ratio between the sponsors and the Government is now estimated to be about 10:1, with the bulk being supplied from public funds. Even more worrying is the apparent suggestion by BAT Industries that the college to be sponsored by BAT in the north east should not carry out any education on the problems of smoking. The view expressed by the chairman is that this is inappropriate in schools. Here is a sponsor now seemingly allowed actively to oppose Government policy in order to further this unpopular and unnecessary scheme.

The Government must some day grasp the nettle of realising that if several millions of pounds are required for the proper foundation of a CTC, then the same will be necessary to give a proper foundation to UK state schools.

David Battye,
NAS/UWT,
136 Langsett Avenue,
Sheffield, Yorkshire

Regional guidance should be heeded

From Mr Dudley A. Keep.

Sir, Mr Richard Griffiths (Letters, June 18), director of the southern region of the Confederation of British Industry (CBI), seems completely to have misunderstood Hampshire's concern.

The intervention by the Department of Trade and Industry (DTI) at the Bramshill planning inquiry was "unexpected" because such action, by a Government ministry, has never previously occurred in similar circumstances.

The action was "deplorable" because in a true democratic process the DTI should have offered a witness for cross-examination, not merely submitted a statement taking advantage of the rules of the inquiry – and thus avoiding confrontation with objectors to the proposal.

Mr Griffiths is aware of the regular meetings between the Hampshire business group (CBI and Chambers of Commerce) and the Hampshire County Council. At the end of last year there were 350,000 square metres of office floorspace and 520 hectares of industrial floorspace available in the county. We make a significant contribution to the work of Serplan (The London and South East Regional Planning Conference), and fully support the principles of the regional guidance. It is that regional guidance which – I would remind Mr Griffiths – seeks to ease the pressure for development west of London and allow greater investment in the relatively less prosperous east.

Hampshire seeks to maintain a good economic and physical environment for both people and businesses. It is for these reasons that it opposes the development of Bramshill Plantation.

Dudley Keep,
Hampshire County Council,
The Castle,
Winchester, Hampshire

Seaq was never meant to show prices in every possible size

From Mr C.R.T. Edwards.

Sir, The Lex Column of June 20 carried an article entitled "IDBs," which suggested that equity inter-dealer brokers reduce the transparency of the UK equity market, and that Seaq (stock exchange automated quotations) could eventually become irrelevant, providing only a benchmark price for small deals.

I would like to make the following points:

Anonymous and exclusive access to inter-dealer brokers allows market makers to off-set risk, and therefore *increases* the liquidity of the UK equity market, and enhances the competitive price displays on Seaq. As regards transparency, I should point out that all IDB deals are reported to the stock exchange and those in alpha stocks appear on Seaq in the price ticker and volume total as they are received.

Most intra-market trading conducted through IDBs is in the most actively traded alpha and beta stocks, rather than in the less liquid, more "fragmented" end of the market (as the article appeared to suggest by its analogy with the over-the-counter markets).

The Seaq screen for these stocks (available to members of the exchange or any customers wishing to subscribe to the service) allows market makers to show firm prices for between 1000 and 1m shares. By far the greater number of market makers display firm prices in alpha securities for 100,000 shares or more (hardly "small deals"); the Seaq "yellow strip" informs potential customers which market makers are offering the best buying and selling price; and any agency broker is able to deal with the appropriate market maker at that price.

It has never been a realistic intention for Seaq to show a price in every possible size. As in any market, the skill of the broker is in his or her ability to negotiate the best price in relation to the particular amount of shares being traded, and especially in obtaining a fair price in any size for which market makers are not displaying firm quotes.

Our insistence that one market maker can only "hit" another in up to a size in which the first market maker is himself prepared to make a price, is not designed to "create a special place" for IDBs. It is designed to encourage market makers to display prices in large size without fear of less bold competitors taking advantage of them.

This, too, seems to us to rebut the claim that Seaq tends towards small deals and away from the "real" price. Additionally, as you will be aware, there is no absolute requirement for order exposure in the market system – a broker/dealer can deal as principal with his customer if he can better the market makers' prices in that size as shown on Seaq. This is itself a considerable incentive to market makers to display prices in larger size.

C.R.T. Edwards,
Chairman, UK Equity Market Committee,
The Stock Exchange, EC2

FINANCIAL TIMES

Monday June 27 1988

Janet Bush on Wall Street

Gurus mixed on outlook for Dow

TALKING to stock market gurus yields a rich language all of its own.

Take Mr Ned Davis' buy and sell and momentum indicators. There is Bondex and Bondito for the bond market and Lexi and Little Mo for equities.

More colourful still is Mr Steven Einhorn at Goldman Sachs who believes we are currently in a "nibbling" bear market rather than an "animal-spirited" bear market.

But does consulting the gurus actually give a clear signal to investors eager to know whether the rise to successive post-crash highs in the equity market over the last fortnight is a buy or sell signal? The *answer is no.*

A poll of four leading gurus resulted in two bearish and *two bullish forecasts* of the stock market.

The four are Mr Robert Prechter, the *Elliott Wave theorist* who advised his clients to sell in early October but believed the market would rebound to more than 3,500 thereafter; Ms Elaine Garzarelli, the Shearson Lehman analyst who has topped the guru stakes since her uncannily accurate call of the October crash; Mr Steven Einhorn, who told his clients to build up cash reserves last September and Mr Craig Corcoran, the editor of Futures Hotline, which uses the research of Mr Ned Davis and Mr Marty Zweig.

Mr Prechter is bearish. He has been predicting a rally in the Dow Jones Industrial Average to a peak of 2,150 in the context of a bear market which, he believes, will last for another 2½ years. He has a zero weighting in equities and, indeed, is using each bear market rally to establish short positions.

The Dow actually rose above 2,150 briefly last week but failed to hold above this level. "Caution and safety is paramount," he says. "It is fine to be invested but treat this bear market with respect. The rally can end at any time."

Mr Prechter, like other gurus in the post-crash era, has learned the risks of predicting actual levels on the Dow or S&P 500 and prefers to simply advise his clients on the trend.

Ms Garzarelli's basket of indicators, which helped her predict a fall of 500 points a week before the crash, are giving a buy signal. The indicators are now 70 per cent bullish. This compares with 92 per cent bearish just before the crash and 60 per cent bullish on October 20 (accounted for by the sharp easing in Federal Reserve monetary policy).

She is fully invested in US equities and, if the dollar rises further from current levels, *will be even more bullish.*

Mr Einhorn is bearish. He believes the June rally to post-*crash peaks was the result of* the best of all possible worlds: a rising dollar, falling bond yields and an easing of inflation fears as evidence emerged of a deceleration of business activity.

He doesn't think the best of all possible worlds will last. He believes the dollar will drift lower in the latter half of this year, that bond yields will move more erratically higher and that inflation will move towards 5 per cent from its present 3½ per cent.

He predicts the Dow will be locked in a trading range between 1,900 and 2,100 and calls the rise to last Wednesday's close of 2,152.20 – a post-crash closing high – a minor violation of that range. He does not expect a major violation and forecasts a gradual "nibbling" bear market drift towards the bottom of that range by the end of this year.

The principal risk to this forecast, he says, is the dollar. If the US currency continues to strengthen, the rise in bond yields would be more difficult and more inflows would be attracted to the equity market.

Mr Corcoran is bullish. He believes both the demand and supply side of the equity market are favourable and points to excessively high holdings of cash by mutual funds, switch fund traders (more aggressive traders) as well as institutions.

On the supply side, the amount of stock available to investors has been reduced by corporate buyback schemes and mergers.

He cites Fidelity who has 40 per cent of all the assets in its switch fund accounts in cash, compared with the all-time high in mid-May of 44 per cent. "That level sets bells ringing to take the contrary stance," he says.

So, investors, take your pick. Perhaps the last word belongs to the guru who summed up attempts to forecast the market: "The bullshit indicator is always overbought."

John Wyles examines the background to a round of crucial pay talks in Italy

Fiat maps out road to a new era

A LITTLE piece of history will be made in Turin today with the opening of pay negotiations the progress and outcome of which could do much to underline the changes in Italian industry and society over the past decade.

Management and unions will be involved in an exercise that has not been repeated since 1976 - the year Fiat, Italy's largest private sector group, last negotiated pay rises with its car workers.

Both sides are investing the process with almost cosmic significance because the talks have a much wider importance than the contents of any deal that is finally struck.

It is not so much that the level of pay rises agreed for more than 100,000 Fiat workers will set the standard for 1m other Italian engineering workers, though clearly this is important for an industry which claims it is struggling to stay competitive with its foreign rivals.

Even more significant will be the *tone* of the encounter over the coming weeks, the extent to which Fiat decides to make it a *trial of strength and to which* the unions are able to take up any challenge.

If a deal is made without any serious strikes along the way and if it is accepted by the rank and file, the negotiations would be seen as marking a maturity in Italian industrial relations, possibly opening a era of collaboration between management and unions.

If, however, the talks go badly, then the conflict risks becoming "politicised" because the political parties may go fishing in the troubled waters.

The backwash could then be felt within the five-party coalition Government, *affecting* the handling of the crucial public employees' pay talks later in the year and injecting a new bitterness into relations between the Government and the Communist opposition.

Both management and unions at Italy's largest private sector group are investing the process *with almost cosmic significance*

On paper, the confrontation is far from reasonably balanced. Fiat to a considerable extent "saw off" the union movement in 1980 when a 35-day strike over the company's demand for 25,000 lay-offs crumbled after the famous "march of 40,000" company workers through the streets of Turin.

The company's demands, to be freed of union militants and their recognition that the group was being pushed to extinction, cleared the way for the introduction of new technology, a doubling *of productivity* per worker employed, a return to Fiat leadership of the European car market, and a level of profitability to compare with the world's leading automotive companies.

Though the level of unionisation at Fiat plants has sunk to an average of 25 per cent, Fiat has never ceased to deal with the unions, providing it has been on its own terms.

Neither does it think itself an anti-union company, but its tough, blunt managing director, Mr Cesare Romiti, is obviously *determined* that the negotiations should not lose him the whip-hand.

The unions do have some useful cards to play. Though divisions between the three confederations, CGIL, CISL and UIL, meant that it took them more than six months to agree a common claim, 68.8 per cent of Fiat car workers took part in the referendum on the claim and 62.2 per cent of these endorsed it.

Those who voted against did so largely because they thought its demands for a L150,000-a-month pay rise ($115), about 10 per cent after tax, were too modest.

Moreover, the opposition was concentrated in the Alfa Romeo plants, where the rate of unionisation is close to 60 per cent and where feelings against the claim's readiness to offer productivity concessions is running particularly high.

The implication is that a strike would be most easily mobilised at *Alfa Romeo*, the company which Fiat has steadily begun to turn around since its acquisition at the beginning of last year and whose recovery in the market could be seriously set back by lost production.

But the desire among more long-standing Fiat workers to share in the company's current prosperity also gives strength to the unions' bow. After tax, monthly pay runs on average at about L1.1m, which is far from exceptional by Italian industrial standards.

The unions want an agreement before the end of July because, says Mr Guido Bolaffi, national leader of CGIL's engineers, they can then exploit the current strength of the car market and send workers off on holiday with more money in their pockets.

But an informal meeting with Fiat management last week left Mr Bolaffi and his colleagues with the uneasy feeling that Fiat wishes to play the negotiations long.

Fiat says that conceding the claim would have an unacceptably damaging effect on its costs, not just because of the cash element but also because of changes in work organisation which are being demanded together with such items as fresh food in the canteens instead of frozen.

Mr Luigi Angeletti of UIL insists that the claim is a responsible one and points out that the unions are offering unprecedented concessions such as the opportunity to hire workers on fixed-time contracts to cope with peak demand for new vehicles.

"The industrial relations climate at Fiat has improved a great deal; workers have been brought back from lay-off and we negotiated fundamental changes at Alfa," said Mr Angeletti.

"It is not in the company's interest to ruin this climate, but if they look for a fight then we cannot run away. But it would not be in Fiat's interest; it needs production and it needs a consensus about production."

American Airlines, BA resolve computer reservation dispute

BY DAVID CHURCHILL IN LONDON

AMERICAN AIRLINES and British Airways reached an out-of-court settlement yesterday in their long-running dispute over access to rival computer reservation systems for airline tickets.

The agreement effectively gives American Airlines the right from July 10 to sell BA airline tickets in the UK through its Sabre computer reservations system.

BA had been refusing to allow reservations made through Sabre to protect reservations made through its own booking systems.

The deal means that BA becomes the first big airline outside North America to allow a computer reservation system owned by a competitor to sell its seats in the airline's home market.

In return, BA will get greater access to the Sabre system in the US which will make its flights more widely available to US travel agents.

In the past, BA has believed that its flights have not been given equal priority with those of American Airlines when reservations have been made by US travel agents on Sabre.

The move means that American Airlines will drop a High Court action against BA seeking to force it to allow the Sabre system to sell BA tickets.

It will also withdraw allegations made to the European Commission in Brussels and the US Department of Transportation that BA was abusing its market position by allowing its tickets to be sold only through its own computer reservation systems.

The growth and complexity of international air travel means that computer reservation systems play a crucial role in enabling travel agents to hook flights for their customers. There are five major reservation systems in the US, of which Sabre is by far the largest.

United Airlines' Apollo system is next largest and BA already has a stake in this through a consortium of European airlines.

As part of the agreement yesterday, American Airlines agreed to withdraw objections to the recent move to acquire this stake.

In Europe, BA is part of the Galileo reservation system operated by a number of big airlines. In the UK BA has its own computer booking system called Travicom.

Confusion among travel agents about the various systems last week led the European Civil Aviation Conference to draw up guidelines for the airline booking systems in an attempt to standardise them.

Continental Airlines takes $131m charge, Page 19

Outlook for electronics industry in UK 'bleak'

By Terry Dodsworth in London

LONG-TERM survival of the leading British-owned electronics companies is seriously questioned in a gloomy, unpublished report prepared for the National Economic Development Council (NEDC) by McKinsey, the US consulting group.

British companies, it says, have become too dependent on defence and telecommunications, have been slow to develop international businesses and have not invested enough.

UK manufacturers are also criticised for failing to take advantage of a buoyant home market and have been over-cautious, concentrating too much on short-term profits. "The prospects for a significant improvement in the UK companies' competitive performance or even their survival look bleak unless major changes are made," it concludes.

Several of the McKinsey proposals are likely to prove controversial, because they implicitly take issue with the way in which many of the leading British electronics groups are run. Although the report does not name names it suggests that decentralised management - General Electric Company, Plessey and STC favour such organisations - is unlikely to be successful in today's international markets.

It also argues that the big British groups should move away from trying to spread risk across many activities and should try to focus on fewer sectors where they can gain a strong position in world markets.

The report rejects some of the favoured prescriptions of the trade unions such as government intervention and state sponsorship.

The traditional policies in support of "national champions" are outdated in electronics, where the industry is now organised internationally with heavy foreign investment.

This means that the cost of support for national companies has become prohibitive, while spending will often have to go overseas. It concludes that the Government should concentrate on stimulating industry through better training and infrastructure support, spreading the benefits to both British-owned companies and foreign investors.

Democrats avoid battle

Continued from Page 1

past five presidential elections.

The Dukakis campaign – holding a clear majority of the 153 delegates present – staved off Jackson efforts to insert language committing the party to a five year freeze in defence spending; renunciation of the first use of nuclear weapons; a unilateral moratorium on nuclear testing; higher taxes on Americans earning more than $200,000 a year; the restoration of corporate taxes to their pre-Reagan level of 48 per cent; and, though vaguely expressed, the establishment of an independent Palestinian state.

At a Washington meeting, Mr Jackson did, however, win party rule changes which he claimed had unfairly diluted the number of his delegates.

The rules, to take effect in 1992, would end the "winner take more" primaries used in some states and would cut the number of "superdelegates" (party officials) by almost half. The changes would not have altered this year's result, though they appear to give more influence to party activists in future.

In Denver the atmosphere was amicable and party unity the slogan of today. However, Mr Jackson's chief platform co-ordinator, Miss Eleanor Holmes Norton, said her candidate reserved the right to resurrect certain issues for a vote on the floor of the Democratic convention next month in Atlanta, where the platform will finally be approved.

One amendment adopted late on Saturday evening included language condemning oppression "in nations friendly and unfriendly" and backed an American role "that will encourage our European friends to respect human rights and resolve their longstanding differences over Ireland and Cyprus . . ."

Those present took this as criticism of UK policy on Northern Ireland.

Opposition to European central bank

Continued from Page 1

meeting in view of much faster than expected progress during the past six months on preparing the way for a fully integrated EC market in goods and services by end-1992.

Mr Lutz Stavenhagen, Minister of State at the Chancellery, who has played a central coordinating role in Bonn's EC efforts this year, saya the complaints 12 months ago that West Germany "has grown tired of Europe" have now been stilled.

Mr Hans-Genscher, the Foreign Minister, who has been trying to shift Bonn towards a more activist stance on monetary union, said in a newspaper interview to be pnhlished today that vision was needed on setting up a future European central bank at the hub of what he called a "European central bank system". He declared thet "the internal market without monetary union would be a torso."

Mr Kohl stressed on West German television last night, however, that the creation of a joint central bank would be at the end, not the beginning of forthcoming monetary discussions.

The West German study group compromise meanwhile does not appear to go nearly far enough to meet the desires of a high-level committea which wants monetary union in parallel with the opening up of the internal market by year-end 1992.

World Weather

		°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	F	26	79	Dubrovnik	F	26	79	Malta	S	29	84	Rhodes	S	28	82
Algiers	F	24	75	Edinburgh	C	15	59	Manchester	C	17	63	Rio de Jo	C	25	77
Amsterdam	D	15	59	Faro	C	21	70	Manila	C	34	93	Rome	S	24	75
Athens	S	28	82	Florence	F	25	77	Melbourne	S	13	55	Salzburg	T	22	72
Bahrain	S	34	93	Frankfurt	C	20	68	Mexico City	C	25	77	San Francisco	C	19	66
Bangkok	F	35	95	Funchal	F	21	70	Miami	S	27	81	Seoul	S	31	88
Barcelona	F	23	73	Geneva	S	21	70	Milan	F	22	72	Singapore	F	30	86
Beirut	-	-	-	Gibraltar	C	21	70	Montreal	C	18	64	Stockholm	S	28	82
Belfast	D	14	57	Glasgow	C	17	63	Moscow	C	29	84	Strasbourg	F	21	70
Belgrade	F	24	75	Guernsey	C	17	63	Munich	F	21	70	Sydney	S	20	68
Berlin	F	18	64	Helsinki	S	28	82	Nairobi	F	21	70	Taipei	R	34	93
Biarritz	F	20	68	H Kong	R	26	79	Naples	F	26	79	Tangier	C	23	73
Bombay	D	30	86	Innsbruck	F	20	68	Nassau	F	30	87	Tel Aviv	S	29	84
Bordeaux	C	21	70	Inverness	S	16	61	New Delhi	C	35	95	Tenerife	F	25	77
Brussels	C	14	57	Islamabad	S	42	108	New York	T	19	66	Tokyo	C	25	77
Budapest	F	21	70	Istanbul	C	31	88	Nice	S	23	73	Toronto	C	15	59
B Aires	F	16	60	Jakarta	C	33	91	Nicosia	F	33	91	Tunis	F	28	84
Cairo	S	35	95	Jersey	C	17	63	Oporto	S	23	73	Valencia	F	24	75
Cape Town	F	17	63	Jo'burg	S	13	55	Oslo	S	30	86	Venice	S	24	75
Caracas	R	27	81	Lima	F	18	64	Paris	C	16	61	Vienna	F	22	72
Casablanca	F	24	75	Lisbon	F	20	68	Peking	S	31	88	Warsaw	F	21	70
Chicago	F	17	63	London	C	17	63	Prague	F	18	64	Washington	F	25	77
Cologne	C	16	61	Los Angeles	F	17	63	Reykjavik	C	8	46	Zurich	C	18	65
Copenhagen	C	18	64	Luxembourg	C	16	61								
Corfu	F	27	81	Madrid	C	23	73								
Dallas	F	22	72	Majorca	F	24	75								
Dublin	C	15	59	Malaga	C	25	77								

Readings at mid-day yesterday
C-Cloudy D-Drizzle F-Fair Fg-Fog H-Hail R-Rain S-Sun Sl-Sleet Sn-Snow T-Thunder

Southern Africa talks

Continued from Page 1

these negotiations behind the scenes."

Mr Vasev said last month that the Soviet Union was prepared to act as a co-guarantor of any regional peace accord, and the crisis in southern Africa was one of the subjects discussed at the recent superpower summit in Moscow.

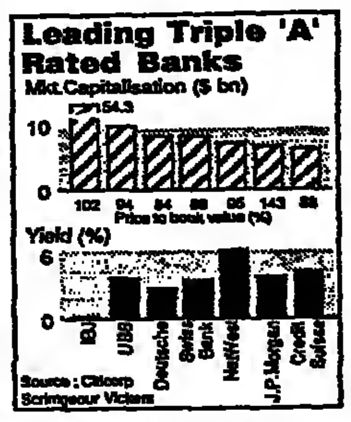
Contrary to American hopes, the Angolans and the Cubans said they had insisted that an agreement depended not only on Namibian independence but also on an end to US and South African support for Unita rebels in Angola.

This appeared to be an implicit denial of reports last week in which Mr Fernando Franca Van-Dunem, Angola's Justice Minister, said his Government was prepared to negotiate a Cuban withdrawal without first getting a US pledge to end support for Unita.

THE LEX COLUMN

Racal tests its investors' faults

There is a certain amount of hubris about the rumblings of discontent of some big institutional shareholders at Racal's plans to float off part of Vodafone, its extremely successful cellular radio business. One has only to look at the speed with which the institutions took advantage of Suchard's 630p dawn raid on Rowntree in April to realise that they often do not have much of an idea of the real value of their investments; and judging by the estimated price tags of anywhere from £1.2bn to £2.5bn, which have been put on Vodafone, it is going to be well nigh impossible to convince everyone that Racal is not selling a stake in its crown jewel too cheaply.



Given these widely differing valuations, the easiest way for Racal to humour its institutional shareholders, when it announces the terms of the Vodafone float tomorrow, would be for it to distribute the shares on a pro rata basis and then let the market set the price. However, this would not achieve the company's objective of raising £400m or so of new money on terms which are far more attractive than it could hope to win by means of a conventional rights issue. By placing a substantial chunk of the shares with US investors, Racal should be able to demonstrate that Vodafone alone is worth at least £2bn or as much as the entire group. It would almost certainly not be able to command these sorts of valuations if UK institutional investors insist on their pre-emption rights.

Racal's case is strengthened by the fact that until 18 months ago it owned only 80 per cent of Vodafone, so the flotation of 20 per cent of the shares, at an expected price of more than four times what it paid for them, is only restoring the status quo. However, while it is extremely rare for institutional shareholders to vote down a management plan to maximise shareholder value, Racal should be more than usually sensitive about the dangers of upsetting the City. With Cable & Wireless waiting in the wings, Racal is taking a calculated risk by putting a price tag on the best part of its business.

Brazil's bankers

Whatever they might say, bankers are never very good at keeping secrets. Last week's announcement that Brazil had normalised its relations with its commercial bankers ending its 17-month old moratorium on interest payments had been widely discounted by the world's stock markets, and it would be dangerous to use the event to justify a continuation of the recent rally in bank shares, even though the sector, on a global basis, has underperformed the FTA World Index by around a third since the start of the year.

The Brazilian accord may well boost investor sentiment for bank shares generally, but it is only one factor in a rally which remains decidedly patchy. US banks shares have risen more than twice as fast as the overall market since the start of the year; in Japan they have risen only half as fast as the market, while in most European countries they have significantly underperformed, according to figures compiled by County NatWest WoodMac. Meanwhile, Industrial Bank of Japan's planned £2.2bn rights issue, coming after Barclays' recent £1.7bn cash call, is another reminder of the sector's embarrassingly regular need for new capital. Throw in concerns about the mounting costs of the banks' push into investment banking, and it is easy to temper any general enthusiasm that Brazil's return to the fold marks a significant change for the better.

That said, the US money centre banks, which sport the highest yields and lowest p/es of all major international banks, are the most obvious beneficiaries. Although $1.35bn of interest rate arrears should have been paid to the banks by the end of this week, it is unlikely that most banks will take their Brazilian loans *off non-accrual status* until the deal has been finalised later this year. But when they do the impact will be material. New York brokers Keefe, Bruyette & Woods estimate that the recognition of past-due Brazilian interest, plus a return of Brazilian loans to full accrual status, would add $1.6bn to the 10 big money centre banks, and most of this money will be allowed to flow through to the bottom line.

That would reduce the average non-performing asset ratios of these banks from 5.3 per cent to 2.9 per cent, and could boost estimated 1988 earnings by close to a third. In the case of Citicorp it would mean earnings per share of $5.50, compared with $4.25, and the impact is even more dramatic at BankAmerica, Chemical and Chase Manhattan which on this basis are selling on around 3 times 1988 earnings. Admittedly, Argentina's growing financial problems mean that banks such as *Manufacturers Hanover* may well lose some of the benefit, but given the difference in the scale of that problem and the potential impact on earnings for the majority, it is easy to explain away some of the sharp rise in US money centre bank share prices this year.

For UK banks the effects are less significant, partly because they are far better capitalised and also because their exposure is less. Nevertheless, County NatWest WoodMac estimates that instead of growing by 18 per cent in 1988, the reported profits of the Big Four UK clearing banks could grow by perhaps 28 per cent to £4.6bn, as prior year provisions are written back into profits. This may be over-optimistic, particularly if Argentina is placed on a non-accrual basis, but it is hard to see UK bank earnings growing more slowly than the overall market for the next 18 months at least.

Of course, when Brazil's tame New York bankers describe the latest rescheduling as "the most extensive and innovative" financing package since the debt crisis began in August 1982, one senses that they might be getting slightly carried away. Indeed, the more bearish observers, like New York's Prudential-Bache Securities, remain firmly of the opinion that it is all a purely cosmetic event, and that any earnings windfall does not belong in a bank's income statement. They may well be right over the longer term, but as long as UK banks offer prospective yields of over 6 per cent, with several New York banks promising considerably more, it is *difficult* to be overly bearish about the bank sector. After all, banks are even more sensitive about cutting dividends than they are about giving away secrets.

SECTION II – COMPANIES AND MARKETS
FINANCIAL TIMES
Monday June 27 1988

INTERNATIONAL BONDS

Nervous watch as sentiment bubbles in dollar sector

BY DOMINIQUE JACKSON IN LONDON

THE EUROBOND market seems set for a nervous week. Traders will be trying to fathom whether the US dollar has finally returned to favour or whether, as has happened so many times in the past, syndicate managers - responsible for launching $1.25bn in new dollar straight bonds last week - have once again jumped the starting gun.

Last week's brisk primary Eurodollar activity, which follows a total of $1.5bn in new dollar straights launched the previous week, would seem to indicate that investor sentiment has swung back in favour of the US currency.

However, although the dollar's startling performance on the foreign exchanges lent support to several of the new deals, fears of growing inflationary pressures remain only just beneath the surface.

One syndicate manager commented: "We are keeping a very close eye on the Commodities Research Bureau index. Even if the impact of the Mid-West drought is more psychological than anything else, the fact they might have to start shooting cows over there soon could turn the dollar on its head."

The market has seen a number of traditional, conventionally offered - and relatively successful - US dollar issues, but an equally strong return to prominence for the Canadian dollar sector. However, the persistence of singular, largely pre-sold or targeted issues indicates that the Eurodollar bond sector has still some way to go to recoup its previous form.

The Canadian dollar sector has been the usual first refuge of investors still wary of US bonds although, surprisingly, it offers nothing like the rich yield premiums of some other sectors, such as Australian dollars or even sterling.

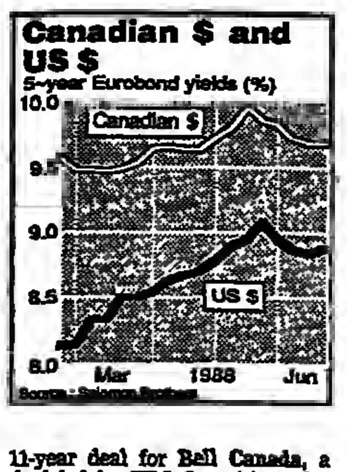
In fact, Canadian bonds have shown a below average and only modest yield pick-np over US bonds over the last few months. In spring this year, the yield on prime five-year EuroCanadian bonds was barely 50 points higher than similar US issues.

Last week saw a fair cross-section of issues in the sector. Apparent once again was the seemingly unqnenchable thirst for the paper from Continental retail accounts.

Several deals seemed tailor-made for the 'Belgian dentist's' portfolio. These included Dresdner Bank's C$100m issue for BMW Finance and Deutsche Bank Capital Markets' smaller C$40m deal for BASF Canada.

J.P. Morgan led a three-year issue on Friday for France's Crédit National which also met excellent demand across Europe. The short maturity was popular and the issue was swiftly increased from an initial amount of C$75m to C$100m.

Although retail clients have traditionally supported the sector, syndicate managers have also recently uncovered a sizeable pool of institutional interest for Canadian dollars. Institutional accounts were the reported destination of an unusually long



11-year deal for Bell Canada, a deal led by UBS Securities, also increased from C$125m to C$150m.

The bond market has also shown surprising resilience, refusing to fall quite as far as the US Treasury market on the few days recently when New York has been headed south.

However, spreads have been tightening swiftly and it is debatable how long investors will be happy remaining in a market offering such a slim premium over the US market, one which it tracks so slavishly because their respective economies are so closely intertwined.

Elsewhere, the Eurofranc sector saw its third substantial issue in the last few weeks. Crédit Commercial de France was the lead manager on a FFr1bn issue for Caisse Nationale des Télécommunications which has the guarantee of the French Government.

The deal follows hard on the heels of a FFr1.5bn issue for the European Investment Bank and a FFr1.52bn convertible for Lafarge Coppée and takes the total of new Eurofranc paper issued so far this year to more than FFr7.3bn. This compares with a total for the whole of 1987 of FFr9.15bn, indicating the sector could be set for something of a renaissance this year.

Dealers in Paris welcomed the size of the recent issues and said they hoped they would go some way to redressing the liquidity problems the sector has suffered from since its successful reopening in 1985.

The Eurofranc sector also seems set to benefit from the excellent form of the French government bond market, which continues to outperform almost all its global rivals, buoyed by a steady currency and a perception that French interest rates are set to fall shortly.

● Banque Indosuez (Suisse) said on Friday it had withdrawn indefinitely a SFr75m gold-linked bond for Galactic Holdings, part of Canada's Galactic Resources group. The bank was obliged to amend the original terms of the issue when the Swiss National Bank declared the deal in violation of federal banking law.

The issue, launched last Wednesday, initially offered investors the option of coupon payment and final redemption in physical gold, cash or in the Swiss franc cash equivalent of gold.

EUROCREDITS

International support homes in on UK house financing

HOUSE FINANCE deals for UK borrowers continne to come to the international syndicated loans market despite misgivings in some quarters, discussed in this column last week, about banks' appetite for such deals.

The latest is an on-balance sheet financing, arranged by Chase Investment Bank for Abbey Life Executive Mortgages, a subsidiary of the Abbey Life Group. The £100m revolving credit carries an interest margin of 20 basis points over London interbank offered rates.

There is also a fee of 20 basis points on undrawn commitments, the generous nature of which suggests that the full amount of the facility will not be committed immediately.

The terms are undoubtedly tight for such financings, which can pay more than 40 basis points. But Chase is clearly expecting that the on-balance sheet nature of the deal gives it importance to banks in terms of their relationship with the parent.

Indeed, National Westminster Bank is said to be using relationships with the French insurance group Midi as an enticement in its syndication of the £150m seven-year facility with a 35 basis point margin for Equity & Home Loans, part of the Midi group.

There is a question about whether this will wash, and if the lead banks are not overestimating the value of the relationships.

Some extra capacity is thought to be coming into the market: Target Home Loans, for example, is said to be prepaying a £235m facility, because it is now part of the TSB Group which has the room to finance the mortgages itself.

The credit quality of such loans is undoubtedly high. Nevertheless, some banks seem to be hitting limits for such financings, while others are insisting on minimum returns of 40 to 45 basis points.

The problems of getting the market wrong are illustrated by Crédit Lyonnais's syndication of a £200m facility for Leeds Permanent, which launched in January and signed an extraordinary six months later. The main problem was that Crédit Lyonnais brought a very aggressive deal just as sentiment in the market turned.

Elsewhere, Chemical Bank is understood to be arranging a $425m five-year facility for Certainteed, the US industrial and building supplies concern, to replace an earlier $150m deal.

A £200m multi-option facility for BICC, the construction, cables and systems concern, announced last week, carries a facility fee of 5¼ basis points, a margin of 10 basis points and a utilisation fee of 2½ basis points if more than half drawn.

The terms are tight, but BICC is one of the very few of the top 50 UK companies not to have arranged such a facility, and the deal will undoubtedly be justified on relationship reasons.

BankAmerica, which has been mandated to arrange a financing for Associates Corporation of North America, has completed a $150m, three-year revolving credit, extendible to five years, for General Mills. It carries a 12½ basis point margin, a utilisation fee of 7½ basis points if more than half drawn, and a facility fee of 6¼ basis points for three years and 7½ basis points thereafter.

A small group of banks has signed a $75m loan for the International Investment Bank, of the Soviet Union, arranged by Deutsche Bank Luxembourg. The loan, for specific projects, was originally targeted at between $50m and $100m. It carries a margin of 18¾ basis points over 10 years, with an eight-year grace period.

In the commercial paper market, Creditanstalt-Bankverein, Austria's largest bank, announced a $800m programme to issue Eurocommercial paper, Eurocertificates of deposit and medium-term notes. Merrill Lynch International arranged the programme, with Chase Investment Bank, J.P. Morgan and Warburg also acting as dealers.

Stephen Fidler

EUROMARKET TURNOVER ($m)

Primary Market

	Straights	Conv	FRN	Other
US$	3,354.3	15.5	0.0	6,935.7
Prev	1,556.0	0.0	358.4	8,721.1
Other	4,857.5	372.1	372.6	1,447.7
Prev	4,561.6	1.1	342.4	1,443.9

Secondary Market

	Straights	Conv	FRN	Other
US$	15,215.7	1,306.1	5,484.1	5,556.9
Prev	14,417.5	1,373.8	4,967.1	4,724.7
Other	20,532.2	1,196.7	3,347.9	23,289.6
Prev	20,879.1	1,062.2	4,454.4	23,628.1

	Cedel	Euroclear	Total
US$	9,536.2	28,332.1	37,868.3
Prev	9,858.9	26,259.7	36,118.6
Other	23,145.8	31,470.5	54,616.3
Prev	26,899.9	29,474.9	56,374.8

Week to June 23, 1988 Source: AIBD

Boardroom deal boosts Spanish banking merger

BY PETER BRUCE IN MADRID

EFFORTS TO merge Spain's two biggest banks, Banco Central and Banco Espanol de Credito (Banesto), have been given a boost following weekend concessions by Mr Alfonso Escamez, Banco Central's embattled chairman.

Mr Escamez diffused what promised to be a stormy shareholders meeting on Saturday by agreeing with Cartera Central's two main shareholders, the cousins Alberto Alcocer and Alberto Cortina, that they would be given a fifth seat on the Banco Central board and win representation on the new holding company being established to oversee the merger with Banesto.

Mr Alcocer and Mr Cortina, who are partners in Cartera Central with the Kuwaiti Investment Office (KIO), have been unwelcome, critical shareholders in Banco Central since late last year.

It is widely assumed that Mr Escamez engineered the Banesto merger in an effort to shake them off.

Cartera's holding in Banco Central is held at 13 per cent, but soon after the merger plans were announced the two main shareholders began buying Banesto stock as well in order to maintain their overall position in the merged unit.

The two did not oppose the merger itself, but threatened to raise legal objections to the equalisation of the market value of Banesto with Central, which is the bigger bank.

Saturday's agreement appears to have set these objections to rest, though it is likely that Cartera Central will continue to buy into Banesto.

The Cartera Central makes use of only three of its four seats on the Banco Central board at the moment and the creation of a fifth seat means both cousins will now sit on the board.

Continental Airlines takes $131m charge on tickets

BY ANATOLE KALETSKY IN NEW YORK

CONTINENTAL AIRLINES, one of the two main operating subsidiaries of Texas Air, the biggest US airline group, is to take a charge of $131m for underestimating ticketing liabilities.

Continental said it would show a loss in the second qnarter because of the charges, which relate to liabilities for tickets that have been paid for but not yet used.

However, the airline forecast it would make an operating profit in the second half of 1988 and said the charges would have no impact on its current or future cash level.

A different interpretation of Continental's accounting methods was suggested last month by the International Association of Machinists, the main union involved in a bitter contract dispute with Eastern Air Lines, Texas Air's other main subsidiary.

The IAM pointed to the unusually low levels of Continental's ticketing liabilities in May and claimed this had allowed Texas Air artificially to inflate Continental's profits while exaggerating losses at Eastern.

INTERNATIONAL CAPITAL MARKETS

UK GILTS

A worrying lack of co-ordination

ANYONE IN the gilt-edged market looking for a clear perspective on official policies towards exchange and interest rates in the communiqué issued from last week's world economic summit will have been sadly disappointed.

The bland wording repeated only the generalised commitment of the Group of Seven to remain "vigilant" against inflation and to promote exchange-rate stability. To paraphrase, however, one of the favourite phrases of Mr Nigel Lawson, Britain's Chancellor, action (and in this case also inaction) frequently speaks louder than words.

The juxtaposition of rises in both West German and British interest rates and only token opposition to the dollar's latest surge said a great deal about how governments and central banks view the outlook. The spirit that emerges is not quite as co-operative as the phrases in the communiqué.

Finance ministers went out of their way to deny any suggestion that they were planning a co-ordinated rise in interest rates, but such soothing words were disingenuous.

If rates rise more or less simultaneously in several leading economies it hardly matters to bond markets whether the increases are co-ordinated or not. And the message from behind the scenes at Toronto was that lack of co-ordinated moves signalled lack of consensus rather than joint agreement to do nothing.

Mr Lawson signalled the underlying differences when he said it was up to each country to make its own judgment based on domestic circumstance. That will presumably apply as today's UK trade figures trigger another rise in base rates. It does not sound like the tight co-ordination trumpeted in the communiqué.

The US (mainly for political reasons) does not share the perception of some of its partners that the still-exceptional buoyancy of the world economy points to a need for a general tightening of anti-inflation policies.

West Germany received a blunt, if private, warning that the ¼ point rise in its repurchase rate on Tuesday should not be the start of a general ratcheting up of rates.

Whether the Bundesbank – which demonstrated its jealously guarded independence of finance ministers by deliberately raising the repo rate in the middle of the summit – pays heed if the dollar continues to rise is another question.

The rise in UK rates, meanwhile, signalled that policy here is influenced more by the rapidly widening trade gap (of which further evidence is expected today) and a worsening domestic inflation outlook than by any international considerations.

The Tokyo Government gave public assurances that there was little prospect of an imminent rise in Japanese rates. But it is far from certain that the semi-independent Bank of Japan will be quite as sanguine if the economy remains as strong in the second quarter as in the first.

Among Japanese and West German policymakers there is also concern to avoid another overshoot in the dollar's value, which would weaken the erosion of trade imbalances and lead eventually to a far more destabilising fall.

Mr Lawson, meanwhile, is anxious that an appreciating dollar should not further complicate his aim of a relatively stable sterling/D-Mark rate. Last week's rise in base rates suggests he has already accepted the Bank of England's advice that more attention needs to be paid to sterling's effective exchange rate as long as the dollar is strong.

The US, however, has indicated it is not ready to base its exchange-rate policy on the Chancellor's desire to re-establish his policy of shadowing the European Monetary System.

Washington's view appears to be that, from the perspective of November's presidential election, the dollar's strength has two advantages. It curbs upward pressure on US borrowing costs and provides a cushion against further speculative attacks on the currency should the next few sets of trade figures be less encouraging than the last. There is almost certainly a point where it too will see the dollar's rise as destabilising, but last week at least there was no discouragement from Washington for those buying the US currency.

In the meantime, the gilt-edged market will have to contend with what looks like a worrying lack of co-ordination and, perhaps, with another base rate rise.

Philip Stephens

US MONEY AND CREDIT

Wall Street traders brim over with confidence

WHEN THE herd suddenly turns, it is a wonder to behold.

A month ago, on May 24, the Treasury's long bond yield was *9.33 per cent and rising*. It seemed a matter of days, if not hours, before yields hit the 9½ per cent mark. Quite probably there would be no stopping the surge in interest rates before the long bond's yield reached double figures.

The dollar, meanwhile, was at Y124.20 and sliding. A test of the *all-time low* at Y121 was *clearly* on the way. Even against the flagging D-Mark it seemed quite likely that the US currency would never again see a level much above DM1.70.

Like many sceptical observers of the May bond market panic, this column suggested a month ago thet it was "time to start wondering whether the fashionable pessimism among investors has gone too far." But nobody could have foreseen the sensational speed of the turnround which began immediately after the Memorial Day holiday, on May 31.

By late last Friday, the long bond yield had fallen to 8.85 per cent, moving all the way back to the bottom of the trading range in which interest rates stabilised during the three months after October's stock market crash.

The bond price itself was up five full points from the low point it hit on May 23. And the dollar had jumped five per cent to Y130.35, a level it last visited in early *December. Against the* floundering D-Mark, the dollar had regained all of its losses since the October crash.

However, the sudden surge in US bond prices and exchange rates during the past two weeks is nothing compared with the change in sentiment in dealing rooms on Wall Street.

It would be comforting and simple to explain the sudden change in attitudes by the unexpectedly favourable economic indicators which have come out in the last two weeks.

Above all, of course, there were the stunningly good trade figures published on June 14. However, the picture of very moderate economic growth, with little sign of overheating, was generally confirmed by this week's announcements – the 2.2 per cent fall in durable goods orders on Tuesday, the modest 0.3 per cent increase in the consumer price index on Wednesday and Friday's moderate advances in personal income and consumption.

But how much improvement has there really been in the economic environment? How much further reduction in trade deficits can be expected in the months ahead, given the explosive export growth and special factors which were needed just to push the deficit below $10bn?

And will these reductions be big enough and soon enough in *coming to compensate* for the rapid deterioration of the US invisibles account, which moved into deficit for the first time in living memory during the first quarter of this year?

The US invisibles deficit will continue rising rapidly from now on and is likely to offset all of the gains made on the trade account. As some *economists* are now beginning to point out, albeit still in *sotto voce* tones, the current account deficit will probably be bigger in 1988 than 1987.

This outlook suggests that the sudden spurt in the dollar on the foreign exchanges is almost certainly a mug's rally. The turnround in the bond market could well be more durable, on the other hand. What ultimately matters for this market is not the fate of the dollar or the trade deficit, but the state of domestic demand in the US economy.

Many bond market investors hoped for a recession immediately after October's crash. This forecast was obviously premature – but the possibility of a recession in the foreseeable future is still very real.

Indeed, a recent survey by the Association of Business Economists showed 66 per cent of the respondents predicted a recession before the end of 1989. The main dispute is between those who expect a recession to be brought on by a *tightening of monetary* policies and a temporary period of high interest rates and those who think that domestic demand will weaken of its own accord.

Recent economic figures have not settled this argument. But it is worth recalling that a final burst of strong economic activity, combined with bullish business and consumer expectations, is typical during the six to nine months before a recession sets in.

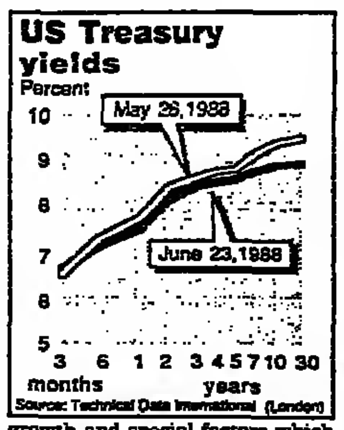
If a recession does take hold, there can be little doubt that bond yields will decline further. A sharp fall in the dollar would ultimately be bullish for the bond market if it coincided with a recession, for the lower currency would attract genuinely long-term foreign investors.

* * *

The following are the economic statistics due for release this week, along with the median market forecasts, as surveyed on Friday by Money Market Services of Redwood City, California:

- *Leading indicators (Wednesday 8.30 am)* should be unchanged, with forecasts ranging from down 0.4 per cent to up 0.5 per cent.
- New home sales (Wednesday 8.30) should be down 2.3 per cent to 663,000 units. Estimates vary from 10 per cent down to 5 per cent up.
- *Manufacturing orders* (Thursday 8.30) should be down 0.9 per cent with a range of minus 1.8 to plus 1.5 per cent. Shipments and inventories were not surveyed by MMS. Smith Barney estimates that shipments will be up 1 to 1.5 per cent while inventories will be unchanged to 0.5 per cent higher.
- Construction expenditures (Friday 10am) should be unchanged, with forecasts ranging from minus one to plus one per cent.

Anatole Kaletsky



Source: Technical Data International (London)

US MONEY MARKET RATES (%)

	Last Friday	1 week ago	4 wks ago	12-month High	12-month Low
Fed Funds (weekly average)	7.55	7.53	7.27	7.78	6.27
Three-month Treasury bills	6.52	6.39	6.51	7.17	5.03
Six-month Treasury bills	6.76	6.70	6.84	7.65	5.41
Three-month prime CDs	7.60	7.50	7.50	8.28	6.67
30-day Commercial Paper	7.43	7.35	7.33	7.62	6.43
90-day Commercial Paper	7.50	7.43	7.42	8.05	6.47

US BOND PRICES AND YIELDS (%)

	Last Fri.	Change on wk	Yield	1 week ago	4 wk. ago
Seven-year Treasury	93½	+¼	8.68	8.85	9.05
20-year Treasury	103⅝	+2	9.00	9.19	9.40
30-year Treasury	102⅞	+2¼	8.85	9.10	9.33
New 10-year "A" Financial	n/a	n/a	9.75	9.90	10.15
New "AA" Long utility	n/a	n/a	10.13	10.30	10.50
New "AA" Long industrial	n/a	n/a	10.00	10.20	10.38

Source: Salomon Bros (estimates).
Money supply: In the week ended June 13, M1 fell by $2.1bn to $771.4bn.

NRI TOKYO BOND INDEX

December 1983 = 100	23/6/88	Average yield (%)	Last week	12 wks ago	26 wks ago
Overall	143.63	4.61	144.06	143.64	140.13
Government Bonds	143.83	4.39	144.40	144.86	140.70
Municipal Bonds	145.09	4.92	145.98	144.90	141.56
Govt.-guaranteed Bonds	147.01	4.89	147.47	146.22	142.78
Bank Debentures	138.02	4.61	138.25	137.21	134.93
Corporate Bonds	144.14	5.33	144.16	142.65	139.50
Yen-denom. Foreign Bonds	145.38	6.39	145.29	143.16	140.17
Government 10-year	5.12	n/a	5.03	4.77	5.02

† Estimated par yield
Source: Nomura Research Institute

Arbed sees return to profit

By Our Financial Staff

ARBED, THE Luxembourg steel group, expects trading in the current year to result in a substantial recovery.

Mr Emmanuel Tesch, chairman, said Arbed had been in profit since the beginning of 1988 due to a recovery in the price of steel.

There was every chance this situation would continue during the second half of the year and that the group would end with a substantial profit.

Last year Arbed was in the red at the parent company level, making a net loss of LFr2.2bn ($58.3m) on sales of LFr63bn. Mr Tesch blamed the losses on the weakness of the dollar, which hit exports, and on ongoing restructuring within the European Community steel industry.

He declined to give a specific profit forecast for 1988, but Mr Joseph Kinsch, the group's finance director, said turnover in the first half was running about 6 per cent up on the same period last year.

Arbed is the main industrial employer in Luxembourg, where one in seven people depend directly or indirectly on the steel industry. It also accounts for more than 10 per cent of Luxembourg's annual gross national product.

FT/AIBD INTERNATIONAL BOND SERVICE

ABN BANK 8½ 97	15009	8½	-¼	9.20
AETNA LIFE & CAS 7¾ 16	100	98¼	-⅛	8.23
AHFC O/S.FIN. 11¼ 94	100	101¼	-⅛	11.40
RUEENSLAND GOVT 11¼ 01	100	103⅛	0	8.89
RALSTON PURINA 11¼ 95	150	106⅛	-⅛	10.04
REYNOLDS R.J. 10¼ 95	100	103¼	-⅛	9.30
[illegible]				

STRAIGHT BONDS: Yield to redemption of the mid-price. Amount issued is expressed in millions of currency units except for Yen bonds, where it is in billions.
FLOATING RATE NOTES: US dollars unless indicated. Margin above six-month offered rate for US dollars. C.cpn = current coupon.
CONVERTIBLE BONDS: US Dollars unless indicated. Prem = percentage premium of the current effective price of buying shares via the bond over the most recent share price.
WARRANTS: Equity warrant prem = exercise premium over current share price. Bond warrant ex yld = exercise yield at current warrant price.
Closing prices on JUNE 24

INTERNATIONAL CAPITAL MARKETS AND COMPANIES

Tim Dickson and **Alan Friedman** on the next round in the struggle at La Générale

Now for some real corporate power-play

THE DIN of battle may be fading. But the struggle to impose a new financial and industrial strategy on Société Générale de Belgique is only just beginning.

Friday's formal ceasefire, ending one of Europe's bitterest and most protracted takeover battles, has clearly repaired relations between Mr Carlo De Benedetti, the Italian businessman, and the previously hostile shareholder camp in La Générale led by Compagnie Financière de Suez, the French investment bank.

The ceasefire provides for both sides to work together for the benefit of the sprawling holding company, for a complex share swap which will reduce Mr De Benedetti's direct and indirect stake to just 16 per cent, and for the immediate withdrawal of all legal proceedings associated with the spectacular bid and its five-month sequel.

What have not been spelt out, however, are the newly united shareholders' precise plans for developing a business which, through its more than 1,200 stakes in other companies ranging from cement making to financial services, directly influences a 20 to 30 per cent slice of the Belgian economy.

The official line is that all parties to Friday's deal are agreed on improving profits and speeding up the redeployment of the company's assets. Until a detailed study of the group's many activities is completed – probably by early autumn – no firm decisions or announcements over new investment directions are thought likely.

Important questions focusing on the future of La Générale's so-called lame ducks – Fabrique Nationale, the armaments manufacturer, Gechem, the chemicals business, and ACEC, the engineering concern – will thus continue to be the subject of speculation.

This will be fuelled, on the one hand, by a clear affirmation, given at last week's annual meeting by Mr René Lamy, the governor, of La Générale's traditional holding company role – no subsidiaries would be abandoned, he said – and, on the other, by widespread stock market suspicions that Suez wants to dispose of unprofitable assets at the earliest opportunity.

Whatever the future, the main lesson of last week is that Suez is now unambiguously in charge of Belgium's biggest holding company.

After the deal, Cerus, Mr De Benedetti's Paris-based holding company, will have just 6.5m of the 42m shares in issue, Sodecom, the vehicle through which the famous "poison pill" of 12m new shares was administered in mid-January and which is controlled by Suez, will have 18m, Suez will hold 10.75m directly, and the Belgian/Luxembourg/Swiss "rump" backing Suez will speak for about 5m.

Only about 600,000 shares are thought to be in private individuals' hands – less than 1.5 per cent of the total – but a return to the old days of more widespread individual ownership is promised by Friday's commitment to put at least some Sodecom shares back on to the bourse.

Mr De Benedetti, meanwhile, has failed in his ambition to become La Générale's sole reference shareholder, as he once put it, but has emerged from Friday's deal with his dignity largely intact, his financial position unharmed, and (most crucially) his previously close relationship with Suez restored.

By ceding part of its La Générale shares direct to Suez, Cerus will in return lift its stake in the French investment bank to a little over 4 per cent, making it one of the four or five leading shareholders. For its part, Suez will subscribe to Cerus' next capital increase and maintain its 10 per cent stake in Mr De Benedetti's French holding company.

La Générale allies: (from left) Carlo De Benedetti, Renaud de la Genière and Maurice Lippens

At Friday's press conference, the Italian entrepreneur talked enthusiastically of a new partnership with Suez in La Générale and later implied that Cofide, his Italian company, Suez, La Générale and Cerus would be the basis for a new "network of European business alliances."

He claimed that, far from being a financial disaster, the campaign for La Générale had been a rewarding episode.

"At the end of December 1987," he explained, "my ultimate holding company CIR had $500m in debt and 51 per cent of Buitoni (since sold for about $1bn).

"Now we have cash, we have increased our stake in Olivetti from 15 to 20 per cent, we have the bigger stake in Suez and the holding in La Générale. If I could do this every six months I would be very happy."

Mr De Benedetti also stressed that as a result of recent developments half his assets were now held outside Italy.

According to one of his chief assistants, the breakdown by stock market value is now 20 per cent or L900bn ($671.6m) information technology (including Olivetti), 16 per cent or L750bn engineering and car components, 8 per cent or L350bn publishing, 17 per cent or L770bn La Générale, 25 per cent or L1,100bn Cerus and other international investments and 13 per cent for "others interests."

Most observers believe the biggest losers in the affair are the Belgian shareholders, whose previous hold over the Suez majority now seems to have been broken. Mr Maurice Lippens, head of Groupe AG, the insurance concern, and main representative for this group, insisted on Friday that he was "fully in agreement" with the new strategy and talked colourfully of La Générale's "cold winter and agitated spring" which were now giving way to a "promising" summer for the company.

Viscount Etienne Davignon, clearly a front runner to be La Générale governor when Mr Lamy finally gives way, said on Friday that Belgians would be "directly involved" and that the "small Belgium syndrome" had been avoided.

At the end of the day, however, Suez and its chairman Mr Renaud de la Genière – and Mr Herve De Carmoy, its chosen executive director who is expected to become managing director of La Générale – are likely to be calling most of the important shots.

The well-orchestrated arrival on the scene last week of Mr Robert Maxwell, the British publisher, is a sideshow to the continuing drama but, nevertheless, an intriguing one.

The headlines which he created, not least in the Belgian press, not only served his own, as yet, highly vague purpose but by focusing on a potential new partner (and investor?) for La Générale helped the existing shareholders and board to paint a bright picture of the future.

Viscount Davignon admitted on Friday that it had been important for the "Maxwell story" to come out ahead of the formal De Benedetti/Suez reconciliation.

Mr Maxwell's interest in developing closer links with La Générale - and his De Benedetti-like enthusiasm for Belgium as a springboard for 1992 - will please at least those who felt that the struggle over the last five months had been singularly short of British participants.

Saudi bank fails to lift earnings

NATIONAL COMMERCIAL Bank (NCB), Saudi Arabia's biggest bank, has reported zero profits for the year ended August 1987 following an increase in provisions for bad loans, writes Finn Barre from Riyadh.

For the previous year, the bank's profits totalled SR779.9m ($207.9m). The bank boosted provisions by 10.3 per cent to SR922.3m last year. Its total deposits rose to SR64.61bn.

French exchange shrugs off strike and bomb scares

BY GEORGE GRAHAM IN PARIS

THE FRENCH Stock Exchange has had enough major mishaps in the last few weeks to be able to survive minor inconveniences without breaking stride.

Thus it climbed sharply last week, shrugging off both a strike by bourse employees that stopped trading on the floor for several days and four bomb alerts.

The Paris Stock Exchange floor is not what it used to be, with a large proportion of dealing now taking place on the screen-based CAC continuous electronic trading system. All French stocks on the "Reglement Mensuel," the monthly settlement system which covers the main shares, are now dealt on the CAC.

But the biggest stocks of all, those which were chosen as the basis for the traded options market, are still traded by open outcry on the exchange floor. Last week's strike effectively closed down these 13 leading shares.

This left London market makers rubbing their hands, giving them a virtual monopoly in top shares such as Peugeot and Compagnie du Midi.

The strike action ended on Friday, although the dispute, which focuses on employees' bonuses, is still unresolved. But a bomb scare caused the evacuation of the bourse, again halting dealings in the option support stocks.

Bomb alerts have become too frequent for comfort and some brokers suspect they are sometimes used deliberately by investors – as they seem to take place particularly on days when the US trade deficit is being published.

This figure comes out at 2.30pm local time, coinciding with the close of the main market session and investors would normally have to wait until the next day to trade their positions. But if dealing is halted by a bomb scare, on return it is prolonged after the announcement of the trade figures.

NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book runner	Offer yield %
US DOLLARS							
Okasan Securities‡♦	50	1993	5	4⅛	100	Okasan Int.(Europe)	4.125
Mitsubishi P'chemical‡♦	200	1993	5	4	100	Nikko Secs (Europe)	4.000
Fuji Photo‡♦	400	1992	4	3¼	100	Nomura Int.	3.250
Orient Leasing‡♦	50	1992	4	3¼	100	Daiwa Europe	3.250
Tokyu Dept. Store‡♦	200	1993	5	4	100	Nomura Int.	4.000
C. Itoh‡♦	400	1993	5	4⅛	100	Nikko Secs (Europe)	4.125
Kumagai Gumi‡♦	400	1993	5	4	100	Daiwa Europe	4.000
CKO Corp.‡♦	50	1993	5	4	100	Daiwa Europe	4.000
Arabian Oil Co.‡♦	50	1993	5	4	100	Nomura Int.	4.000
Arabian Oil Co.(a)‡♦	50	1993	5	4	100	Nikko Secs (Europe)	4.000
Sumitomo Bk Cap.Mkts♦	150	1993	5	9⅝	101½	Bankers Trust Int.	8.989
Itoham Foods♦	120	1993	5	(4⅛)	100	Nomura Int.	★
NTN Toyo Bearing♦	200	1993	5	(4⅛)	100	Nomura Int.	★
Civas 7★★(c)‡♦	100	1993	5	25bp	100.10	Nikko Secs (Europe)	
BP America♦	100	1989	1	10⅞	101⅞	Nomura Int.	8.835
Toagosei Chemical♦	100	1993	5	(4⅛)	100	Daiwa Europe	★
Best Denki♦	200	1993	5	(4⅛)	100	Nikko Secs (Europe)	★
American Ex.Cr. Corp.♦	200	1992	4	9¼	101⅞	Shearson L'man Hutton	8.751
EIB♦	200	1992	4	8⅞	101¼	CSFB	8.370
Nordic Inv. Bank♦	100	1993	5	9¼	101¾	Nikko Secs (Europe)	8.802
Metropolis of Tokyo♦	200	1993	5	9¼	101⅞	IBJ Int.	8.710
PKbanken♦	50	1993	5	9⅛	101¾	Yamaichi Int.(Eur)	8.679
Bergen Bank♦	50	1993	5	9⅛	101½	Yamaichi Int.(Eur)	8.742
Austria♦	150	1993	5	9⅛	101½	IBJ Int.	8.742
Flash Eight (e)‡♦	30	1993	5	22bp	100.10	Sanwa Int.	-
Samsung Semic.& Telec.♦	50	1995	7	9⅞	100¼	CSFB	9.722
Prima Meat Packers♦	80	1993	5	(4⅛)	100	NKK (Europe)	★
CANADIAN DOLLARS							
Desjardins du Quebec♦	100	1993	5	10½	101⅞	UBS Secs.	10.005
Bell Canada♦	150	1999	11	10⅝	101⅛	UBS Secs.	10.351
BMW Finance♦	100	1995	7	10⅛	102	Dresdner Bank	9.718
BASF Canada♦	40	1993	5	10	101⅝	Deutsche Bk Cap.Mkts	9.576
Interfinance Cr.Nat.♦	100	1991	3½	10	101⅞	J.P. Morgan Secs.	9.457
AUSTRALIAN DOLLARS							
Amcor Ltd.§♦	100	Perp.	-	9	100	Morgan Stanley Int.	9.000
D-MARKS							
Saint-Gobain♦	200	1993	5	5¼	101¼	Deutsche Bank	5.458
SWISS FRANCS							
CIR Int.♦	125	1993	-	3	100	Warburg Soditic	3.000
Canon Sales Co.★★§♦	200	1993	-	⅜	100	Banca Svlz.Italiana	0.375
Uekigumi Co.★★§♦	40	1992	-	½	100	Citicorp Inv. Bank	0.500
C. Itoh★★§♦	300	1993	-	⅜	100	SBC	0.375
Okabe Co.★★§	45	1993	-	(1⅛)	100	Wirtschafts-und Pbk	★
Nishio Rent All Co.★★♦	17	1993	-	4½	100¼	UBS	4.443
Asfinag♦	150	2003	-	5	99¾	UBS	5.024
Sanyo Coca Cola Bot.§★★	65	1993	-	(⅛)	100	Bqe Paribas (Suisse)	★
Chubu Gas Co.★★§	30	1993	-	(⅛)	100	SBC	★
Furusato Ind.★★§	30	1992	-	(⅛)	100	Bank Leu	★
Phillips★★♦	250	1995	-	4⅜	100	UBS	4.375
STERLING							
Phoenix Int.Fin.§♦	100	1998	10	6	100	Salomon Brothers	6.000
Harrisons & Crosfield§♦	75	2003	15	7½	100	Baring Brothers	7.500
Alliance & Leicester‡♦	125	1993	5	(g)	100	J.P. Morgan Secs.	-
ECUs							
C. Itoh‡♦	100	1993	5	3⅛	100	NKK Europe,B.Paribas	3.125
Swedish Export Cr.(f)♦	50	1992	4	7⅝	101⅞	Merrill Lynch	6.969
Pepsico♦	100	1992	4¼	7½	101.575	Morgan Stanley Int.	6.922
Credit Local de France♦	150	1992	4¼	7½	101½	Banque Paribas	7.169
FRENCH FRANCS							
CNT♦	1bn	1998	10	9	101¼	CCF	8.731
LUXEMBOURG FRANCS							
Metsa Botnia★★♦	300	1993	5	7½	100¼	Kansallis Int. Bank	7.438
BGP-SIB (Paris)★★♦	300	1993	5	7½	100¼	BIL	7.314
BBL Int. NV★★♦	300	1994	6	7¼	100½	Credit Europeen	7.145
GUILDERS							
Mitsubishi P'chemical‡♦	150	1993	5	⅝	100	Amro Bank	0.625
YEN							
Smart 4♦	6bn	1993	5	5¼	101⅞	Sumitomo Finance	4.819
Smart 4 (b)♦	4bn	1993	5	5¼	101⅞	Sumitomo Finance	4.819
B.Comm. Italiana (d)‡♦	10bn	1993	5	7	101⅞	IBJ Int.,S'tomo Tst.	6.548
Okobank♦	10bn	1993	5	5	101½	IBJ Int.	4.657
Council of Europe♦	15bn	1992	4	5	101⅞	Daiwa Europe	4.547
Noel III♦	5bn	1993	5	5	101⅞	Norinchukin Int.	4.572
Cariplo♦	5bn	1993	5	7	101⅞	Sumitomo Trust Int.	6.548

★Not yet priced. ★★Private placement. ‡Floating rate note. #With equity warrants. §Convertible. ♦Currency-linked. ♦Final terms. (a) To be sold in Asia. (b) Convertible into step-up bond or FRN. (c) 25bp over 6m Libor. (d) Redemption in US$. (e) 22bp over 6m Libor. (f) Fungible with two previous issues. (g) 1m Libor flat or ⅛ over 6m Libor, whichever is higher. Reset monthly and paid semi-annually. (h) Redeemed in US$. Note: Yields are calculated on AIBD basis.

UK COMPANY NEWS

Rockfort comes to market with £60.2m valuation

BY PAUL CHEESERIGHT, PROPERTY CORRESPONDENT

THE PROSPECTUS is published today for an offer for sale of shares in Rockfort Group, a Reading-based property developer, which is coming to market with a full listing. It is offering 41 per cent of its enlarged equity, priced at 140p a share, to give a market capitalisation of £60.2m.

The sale of 17.6m shares will give the company a capital injection of £18.7m and the existing shareholders, principally Mr Roger Smee, the chairman, and Kleinwort Benson, the merchant bankers managing the issue, £4.8m.

The prospectus shows that Rockfort is expecting at least to triple its pre-tax profits this year to £8.4m from £2.67m in the year to December 1987. This level of profit would provide earnings per share of 15.4p and the directors are proposing to pay one dividend on the enlarged capital this year of 2.6p.

Rockfort started operations in 1976. It is controlled by Mr Smee, a former professional footballer who trained as a surveyor. Its operations started in Reading but have spread through the Thames Valley and into the City of London.

The main object of the company, which would be capitalised at £60.2m on the basis of the offer price, is to create earnings through property development. The majority of its ventures are funded by institutions before construction work starts.

The prospectus states that although this emphasis on pre-funding will continue, "the proceeds of the offer will give Rockfort the flexibility on the financing of projects independently of the availability of institutional funding."

Over the longer term Rockfort hopes to be able to retain equity in some of its developments in order to build up an investment portfolio.

Although Rockfort earns 85 per cent of its gross profits from commercial developments, of which eight are now in progress, it is building up its residential business and over the past year eight sites have been acquired within 20 miles of Reading. The current development programme will provide more than 800 homes.

The present commercial development programme, covering 232,000 square feet is strongly biased towards office development in London and the Home Counties, but Rockfort also has a retail scheme in York and a mixed development in Reading.

● comment

Rockfort certainly has its timing right. The property sector has been outperforming the rest of the market, so it catches a rising tide here. But it is arriving on the market at a time when the number of developments it has coming to fruition permit a very healthy profits forecast. Earnings will in any case be helped by the proceeds of the offer for sale. The offer price puts Rockfort on a prospective multiple of 9.1, which is at the low end of the range for comparable development companies in the sector. So, given the current mood of the market, the shares could go to a premium.

Cadbury Ireland advances 32%

Cadbury Ireland, a wholly-owned subsidiary of Cadbury Schweppes, confectionery and soft drinks group, reported a 32 per cent improvement in pre-tax profits to I£5.23m (£4.48m) for the year ended January 21, compared with I£3.96m last time.

Turnover rose from £111.96m to £116.64m, and generated an operating profit of £5.34m (£4.12m). Net interest and similar charges were £111,000 (£162,000). Earnings per share jumped from 84p to 118p.

Hatfield Estates

Hatfield Estates has acquired Kingham Construction of High Wycombe, which will double its construction capacity and area of operation. This is Hatfield's first acquisition since it came to the USM last December. Purchase consideration is 28,540 shares.

FT Share Service

The following securities were added to the Share Information Service in Saturday's edition:

Central Motor Auctions (Section: Motors).

Food Industries (Foods).

Shani Group (Stores).

Sotheby's Holdings (Industrials).

Vodafone plan opposed

BY HUGO DIXON

THE LARGEST shareholder in Racal is to lead a campaign against plans by the UK electronics group to sell part of its Vodafone mobile telecommunications subsidiary to new investors.

Millicom, the US telecommunications group which owns 5 per cent of Racal, is instead proposing that existing shareholders in Racal be given shares in Vodafone without having to put up any extra cash.

The challenge by Millicom, which helped set up Vodafone and at one stage owned nearly half its equity, could derail Racal's plans. It comes after weeks of grumbling by institutional investors, many of whom feel they are being asked to pay money for something they already own.

Millicom's chairman, Mr Shelby Bryan, said yesterday that he would be putting a resolution proposing his alternative scheme to Racal's agm in August.

He had discussed the idea with Sir Ernest Harrison, Racal's chairman, but had not been able to persuade him. Other shareholders with whom he had spoken, however, had been sympathetic.

Under Millicom's scheme, there would be a total demerger of Vodafone and Racal.

Racal's alternative scheme, which will be announced tomorrow, is believed to involve the sale of 25 per cent of Vodafone for some £500m. Half would be sold to current shareholders and half to new investors - mainly in the US.

If Millicom's scheme is adopted, both Vodafone and Racal may be more vulnerable to take-overs. Cable & Wireless, the telecommunications group, last week revealed it had built up a 2.8 per cent stake in Racal as a "strategic investment".

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the sub-divisions shown below are based mainly on last year's timetables.

TODAY

Interims- Doctus, Lowe (Robert H), Trusthouse Forte.

Finals- Bridgend Group, Campbell & Armstrong, Dowty, Mercury Asset Management, Racal, Sterling Publishing, Turnbull Scott, Warburg (SG) Group, Wooltons Betterware.

FUTURE DATES

Interims-

Hepworth	July 28
Securiguard	July 6
Union Discount Co of Lond	July 13
Warner Holidays	June 30

Finals-

Bogod-Pelepah	July 1
CH Inds	July 5
Irish Wire Products	June 28†
Lee (John J)	June 28
Nasco Investments	June 29
Scotts's Restaurants	June 28
Staks Holdings	June 29
Syltone	June 30
Tex Holdings	July 5
Vosper Thornycroft	July 5

FINANCIAL TIMES STOCK INDICES

	June. 24	June. 23	June. 22	June 21	June 20	June 17	1988 High	1988 Low	Since Compilation High	Since Compilation Low
Government Secs.	88.45	88.82	89.15	89.10	89.06	89.35	91.43	86.97	127.4	49.18
Fixed Interest	97.83	98.02	97.99	98.13	98.11	98.38	98.67	94.14	105.4	50.53
Ordinary	1494.9	1496.7	1496.5	1481.6	1468.7	1472.6	1496.7	1349.0	1926.2	49.4
Gold Mines	213.3	214.1	215.7	215.9	218.7	215.5	312.5	195.4	734.7	43.5
FT-Act All Share	967.61	970.75	969.90	960.57	953.58	956.27	970.75	870.19	1238.57	61.92
FT-SE 100	1871.3	1878.9	1879.3	1860.1	1844.0	1850.1	1879.3	1694.5	2443.4	986.9

Philip Coggan attempts to unravel the jargon behind the computer networking battle

A strong case needed to hold independence

COMPUTER jargon is one of the most impenetrable thickets of the English language. So when two computer networking companies get locked into a bid battle and start to argue over the merits of each other's products, one can hardly move for technical mumbo-jumbo.

"Our traditional strengths are in local networking, theirs are in wide area networking. The result will be a complementary product range," says Gandalf Technologies, the Canadian data communications group currently bidding £57m for UK computer group, CASE.

"Their products are based in mature markets such as limited distance modems and local data PABXs. We do not need Gandalf", retorts the aggrieved British group.

Gandalf may be a Canadian company but there is little chance of a Rowntree-style campaign against the foreign invaders. The group was founded by two expatriate Englishmen and its affable chief executive, Mr James Bailey, has an accent more akin to Jimmy Tarbuck than Pierre Trudeau.

The Canadian group first approached CASE for a merger last January but by the time it actually launched its offer a month ago, takeover speculation had helped push the CASE share price from a low of 47p to a high of 102p.

As a consequence, Gandalf pitched its offer - 320p in cash and one of its shares for every eight shares in CASE - at 84p per share, well below the prevailing market price. Since then, Gandalf's share price has increased and CASE's has fallen, so that the offer is now worth around 91p per share - slightly above the market price of 88p.

The market for which both companies are fighting - data communications - is worth an estimated £5.5bn per year worldwide. In simple terms, data communications is all about the means of transmitting information from one computer to another.

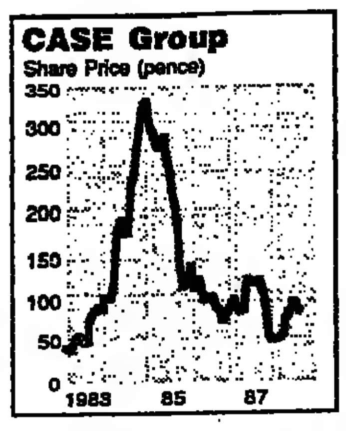
The best known data communications product is probably the modem - essentially a telephone line dedicated to the transmission of information between computers. More sophisticated is the data PABX - the equivalent of an office telephone exchange - which switches information between all the computers in one particular area (a local network).

Longer distance transmission (so-called wide area networks) requires techniques such as "packet switching" whereby information is sent down a conventional telephone line, alongside normal phone calls.

Hardware manufacturers will often offer data communications products to go with their machines. But many customers have over the years haphazardly invested in hardware produced by everyone from IBM to Amstrad. Traditionally, the hardware manufacturers have attempted, in their own interests, to limit the possibilities of communication with computers made by other groups.

As customers become more sophisticated and more demanding in their requirements, they have begun to demand so-called "open systems" which free them from the grip of proprietary hardware companies.

But truly open systems are still some way off and in the meantime there is a niche for independent data communications companies to produce systems which allow customers to send information between totally incompatible pieces of hardware.



The niche may not last for long. Data communications is one area where the hardware manufacturers - like IBM and DEC - and the telecommunications company virtually meet. Both groups have recently attempted to consolidate their positions in the market by buying up the independents.

A series of mergers and takeovers has occurred in the sector - Timeplex has been bought by Unisys (the combination of the old Sperry and Burroughs corporations), Ungemene Bass by Tandem and MDI by Motorola.

Those mergers, argues Gandalf, indicate that small companies like itself and CASE must combine or perish. CASE is confident that it can cope on its own. In any event, "if we did want to merge, it would not be with Gandalf", said Mr Peter Burton, CASE's chief executive.

CASE has looked vulnerable to a bid for some time ever since an acquisition in the US went badly wrong. Until 1984, when it purchased Rixon, CASE had been one of the hottest electronic stocks on the market. But CASE bought into the US just at the time when the data communications market was going into sharp decline: the result was successive annual pre-tax losses of £14.7m and £5.4m.

Even last year, after substantial rationalisation, CASE still managed to lose money in the US. Sales were virtually static in dollar terms, and losses, before interests and R&D costs, were £1.67m.

In contrast, Gandalf has managed to stay in profit over the past few years, although it did have a dip in 1985. Since then, profits have resumed their upward surge: last year the group made C$13m (£6.3m) before tax, and in the first nine months of the current year, it has already raised profits by 27 per cent.

The US is one area where Gandalf says that it can obviously help CASE out. But CASE says that Gandalf has been operating in the US for some time without much success; a combination of the two US operations would be costly and wasteful.

The combined group, would, CASE says, be heavily geared; although after discussions with the Takeover Panel, it admitted on Friday that the likely gearing level was 75 per cent and not 85 per cent, it still claims that the debt burden will restrict the group's ability to invest in R&D. Gandalf argues that a combined group will be better placed, because of its size, to invest successfully.

But the real nub of the financial argument is the CASE claim that Gandalf is bidding just as the group is recovering from its US problems. After losing money in last year's first half, it has just announced a full year profit of £2.2m. On a historic basis, that means that Gandalf's offer is equivalent to a multiple of 48 times earnings; without making a profits forecast, CASE is arguing that the multiple does not reflect its real growth prospects.

What is the real prospective multiple? Analysts are plumping for anything from £3.8m to £5m in pre-tax profits this year, which makes the Gandalf offer look either very generous or fairly mean, depending on whose estimate you take.

The financing which Gandalf has arranged for the cash element of its bid - a C$72m credit facility from the Royal Bank of Canada - appears to give Gandalf scope to offer another 10p per share. That may be just enough to clinch success.

Investors, if they believe in CASE's hopes for recovery, may be wary of accepting paper in a Canadian group. But unless a white knight comes along, they may be tempted to sell in the market. The most ominous pronouncement for CASE came from one analyst, who did not want to be named. "If it wasn't for the bid, CASE's share price would be half its current value", he said.

PENDING DIVIDENDS

Dates when some of the more important company dividend statements may be expected in the next few weeks are given in the following table. The dates shown are those of last year's announcements except when the forthcoming board meetings (indicated thus *) have been officially notified. Dividends to be declared will not necessarily be at the amounts in the column headed "Announcement last year."

	Date	Announcement last year		Date	Announcement last year
* Asda	July 11	Final 2.13	ICI	July 28	Inter 25.0
* Assoc.Newsp	July 14	Inter 2.0	Lloyds Bk	July 29	Inter 8.6
* Barclays	July 27	Inter 12.75	Mercury Asset	June 30	Final due
* Blue Arrow	June 28	Final 0.8	Midland Bk	July 27	Inter 11.5
BPB Inds	June 30	Final 8.0	NatWest Bk	July 30	Inter 15.5
Dixons	July 13	Final 2.8	Rank	July 14	Inter 7.25
Dowty	June 29	Final 3.6	Reed Exec	July 1	Final due
EMAP	July 16	Final 2.13	Scott & Newd.	July 8	Final 9.0
Ferranti	July 1	Final 1.34	Spirella	July 8	Inter 2.82
Granada	July 8	Inter 3.5	Sound Diffn	June 30	Final due

DIARY DATES

PARLIAMENTARY

TODAY
Commons: Housing Bill, completion of remaining stages.
Lords: Protection of Animals Bill, third reading.
Education Reform Bill, report.
Motor Vehicles (Wearing of rear seat belts by children) Bill, third reading.
Licensing (Retail Sales) Bill, committee.
Select committee: Public Accounts: subject, family practitioners. Witness: DHSS. (Room 16, 4.45 p.m.)

TOMORROW
Commons: Criminal Justice Bill, completion of remaining stages.
Lords: Education Reform Bill, report.
Motions for approval on orders: food protection, Wolverhampton urban area development, Central Manchester Development Corporation, and Leeds and Sheffield Development Corporation.
Select committees: Trade and industry: subject, British Shipbuilders. Witness: Mr Kenneth Clarke, Minister for Trade and Industry. (Room 15, 10.45 a.m.)
Foreign Affairs: subject, political impact of arms control and disarmament. Witness: Mr George Younger, Defence Secretary. (Room 16, 4.15 p.m.)
Committees on private bills: City of London (Spitalfields Market) and St George's Hill, Weybridge Estate. (Rooms 5 and 6, 10.30 a.m.)

WEDNESDAY
Commons: Debate on Northern Ireland Act 1974 (Interim Period Extension) Order and Appropriation No. 2 (Northern Ireland) Order.
Lords: Local Government Finance Bill, report.
Motions on Building Societies Orders.
Select committees. Environment: subject, toxic waste. Witness: Institute of Water and Environmental Management. (Room 21, 10.30 a.m.)
Trade and Industry: subject, trade with Eastern Europe. Witnesses: BP International, Rank Xerox and John Brown. (Room 15, 10.30 a.m.)
Welsh Affairs: subject, inward investment into Wales. Witness: Inward and Northern Development Company. (Room 18, 10.30 a.m.)
Treasury and Civil Service sub-committee: subject, Civil Service Management Reform: "The Next Steps." Witnesses: Sir Robin Butler, head of the Home Civil Service, and Mr Richard Luce, Civil Service Minister. (Room 19, 11 a.m.)
Treasury and Civil Service: subject, international monetary co-ordination. Witness: Mr Gavyn Davies of Goldman Sachs. (Room 21, 4.30 p.m.)
Education, Science and Arts: subject, educational provision for the under-fives. Witnesses: DHSS officials and National Association of Inspectors and Educational Advisers. (Room 20 4.15 p.m.)
Employment: subject, urban development corporations. Witnesses: London Borough of Tower Hamlets. (Room 8, 4.15 p.m.)
Public Accounts: subject, road safety. Witness: Sir Alan Bailey, Department of Transport. (Room 16, 4.15 p.m.)
Committees on private bills: City of London (Spitalfields Market) and St George's Hill, Weybridge Estate. (Rooms 5 and 6, 10.30 a.m.)

THURSDAY
Commons: Debate on foreign affairs.
Lords: Local Government Finance Bill, report.
Motion on the British Waterways Board (Rateable Values) (Scotland) Amendment Order and the Docks and Harbours (Rateable Values) (Scotland) Amendment Order.
Select committees. Trade and Industry: subject, trade with Eastern Europe. Witness: Mr Michael Kaiser, director of the Russian, Soviet and East European Institute. (Room 15, 10.30 a.m.)

FRIDAY
Commons: Debate on White Paper on Fair Employment in Northern Ireland.
Lords: Northern Ireland Act (Interim Period Extension) Order and Appropriation No. 2 (Northern Ireland) Order, motions for approval.

Trade Fairs and Exhibitions: UK

July 4-7
Royal Show (0203-555100)
National Agricultural Centre, Kenilworth

July 7-9
Financial Times Centenary Exhibition and Events: Personal Investment 1988
Queen Elizabeth II Conference Centre, Westminster.

July 7-10
Antiques Fair (04447 2514)
Corn Exchange, Brighton

July 8-16
World Wine Fair (including gourmet food section) (01-729 0677)
Bristol Exhibition Centre

July 15-16
Cash and Carry Fashion Fair (01-727 1928)
Kensington Town Hall

July 17-21
Gift trade fair (0282 867153)
Harrogate

July 19-24
British Music Fair (0753 41963)
Wembley Exhibition Centre

July 21-28
Trade Opportunities in China (seminar on July 22)(0772 203020)
Preston Guild Hall

July 28-30
Sales solutions- The Event Exhibition (0543 255253)
NEC, Birmingham

August 7-10
Furniture Show (01-724 0851)
G-Mex Centre, Manchester

August 12-13
Cash and Carry Fashion Fair (01-727 1929)
Kensington Town Hall

August 14-18
Gifts Fair (0895 272010)
Hove Town Hall

August 18-21
Antiques Fair (0444 459917)
Kensington Town Hall

Overseas Exhibitions

Current
International Chemical Fair - INCHEBA (01-378 7778) (until July 1)
Bratislava

June 28- July 1
Food Fair (01-499 0877)
Sao Paulo

July 7-10
Money Show (01-499 7774)
Kuala Lumpur

July 8-14
Hospital Exhibition (01-439 4452)
Shanghai

July 20-21
Cologne Fashion Fairs International Trend Show (01-930 7251)
Cologne

August 16-18
Fashion Week 01-937 8050)
Tel-Aviv

August 22-24
Nordic Fashion Fair (01-486 1951)
Helsinki

August 25-28
Office Equipment, Technology and Computer Systems Exhibition (0494 729406)
Singapore

Business and management conferences

June 27-28
Financial Times: Telecommunications and the European business market (01-925 2323)
Hotel Inter-Continental, London, W1.

June 30-July 1
Frost & Sullivan: Business intelligence - how to gain and retain a competitive advantage (01-730 3438)
London

June 30- July 1
Business Research International: EC 1992 – The changing face of European banking (01-687 4383)
Portman Intercontinental, London

July 1-3
CRAC Insight Programme: Insight into entrepreneurship (0223 460277)
Bristol University

July 5-6
Financial Times Conferences : The Financial Services Act – Legislation in action; Black Monday - Nine months after (01-925 2323)
Hotel Inter-Continetal, London W1

July 7
Coopers & Lybrand: Strategy '92 – Positioning your business within the single European market (0272 292791)
Bristol

July 7
The Planning Exchange: Developing businesses (041-332 8541)
The Council House, Birmingham

July 8
CBI Conferences: Iraq-current policies and their effect on politics and trade (01-379-7400)
Centre Point, London

July 14
London Chamber of Commerce: Chile – Its expanding economy and trade opportunities (01-248 4444)
London

July 14-15
Frost & Sullivan: Improving operations workflow (01-730 3438)
London

July 15-17
Careers Research and Advisory Centre: Insight into management (0223-460277)
High Wycombe

July 20
Industrial Participation Association: People and pay – the impact of decentralisation (01-403 6018)
Barbican Centre

July 21
The Economist: 1992: The new Europe – Getting to grips with the competition (01-839 7000)
Centre Point, London

July 21
Lowe & Gordon Seminars: Commercial conveyancing (01- 493 2428)
Marriott Hotel, London

July 21
CBI Conferences/The Economist: 1992: The new Europe – Getting to grips with the competition (01-379 7400)
Centre Point, London

July 28
FIBEX: Acquiring in Europe; making strategic European expansion happen (01-837 1133)
Le Meridien Hotel, London

August 1-5
Management Centre Europe: The fundamentals of finance and accounting for non-financial managers (Brussels 322 5161911)
Brussels

August 8-11
15th International Small Business Congress (Helsinki 358 0 143833)
Helsinki

Anyone wishing to attend any of the above events is advised to telephone the organisers to ensure that there have been no changes in the details published

FINANCIAL

TODAY
COMPANY MEETINGS-

[illegible]

Do. 8 75% Cnv. Red. Prf. 3.375p
Pentland Inds. 0.5p
Pentos 1p
Perpetual 0.8p
Perry Group 5.3p
Plasmec 1.8p
Pleasurama 4p
Plumb Hldgs. 3p
Port of London Auth. 3% A 29/99 1.5pc.
Portals Hldgs. 8.2p
Do. 6% Prf. 2.1p
Powell Duffryn 4⅛% Prf 0.83125p
Property Security Inv. Tst. 8% Prf. 4p
RTZ Corp. (Reg.) 8.3p

Young & Co's Brewery 3½% Irrd. Mtg. Deb. 1.75pc.

SATURDAY JULY 2
DIVIDEND & INTEREST PAYMENTS-
Beazer 8.67% Red Prf 4.335p
British Empire Sec. & Gen. Tst. 16⅜% Deb 2011 5.1875pc
Mid-Sussex Water 11% Red. Deb. 2012/16 5.5pc.
Telfos Hldgs 9% Prf. 4.8p
Tops Estates 16¼% 1st. Mtg. Deb. 2011/16 5.125pc.

SUNDAY JULY 3
DIVIDEND & INTEREST PAYMENTS-
Drayton Cons Tst. 5¼% Deb. 1983/88 2.625pc.

GRANVILLE
SPONSORED SECURITIES

Capitalisation £000's	Company	Price	Change on week	Gross div (p)	Yield %	P/E
7751	Ass. Brit. Ind. Ord	230	9	8 7	3.8	8.6
-	Ass. Brit. Ind. CULS	230	9	16.6	4.3	-
925	Armitage and Rhodes	37	-3			
3974	BBB Design Group (USM)	48	-5	2.1	4 3	7 7
107899	Bardon Group	160xd	-1	2.7	1.7	27 4
18567	Bardon Group Conv. Pref.	112	6	6.7	6 7	-
8099	Bray Technologies	140	0	3 2	3 7	10 2
	Brembill Conv Pref	107	6	11 6	11 0	-
1041	CCL Group Ordinary	274	+2	12 3	4 5	4 2
1850	CCL Group 11% Conv Pref	148	+2	14 7	9 9	-
16740	Carbo Plc (SE)	145	9	6.1	4 2	9.2
749	Carbo 7.5% Pref (SE)	107xd	-5	10 3	9 6	-
4816	George Blair	261	+11	3 7	1.4	6 7
7488	Isis Group	94	9	-	-	-
12426	Jackson Group (SE)	118xd	+15	3 3	2 8	13.9
25732	Multihouse N.V.(AmstSE)	330	0	10 4	3.2	13 1
520	Robert Jenkins	51	+2	-	-	2 2
14175	Scruttons	315	+7	8 0	2 5	28 6
6367	Torday & Carlisle	206xd	+4	7 7	3 7	7 7
[illegible]	Trevian Holdings (USM)	95	+16	2 7	2 9	10.2
[illegible]	Unilock Europe Conv Pref	108	0	8.0	7 6	-
6137	W S Yeates	286	+1	16 2	5 7	7 9

Securities designated (SE) and (USM) are dealt in subject to the rules and regulations of The Stock Exchange. Other securities listed above are dealt in subject to the rules of TSA

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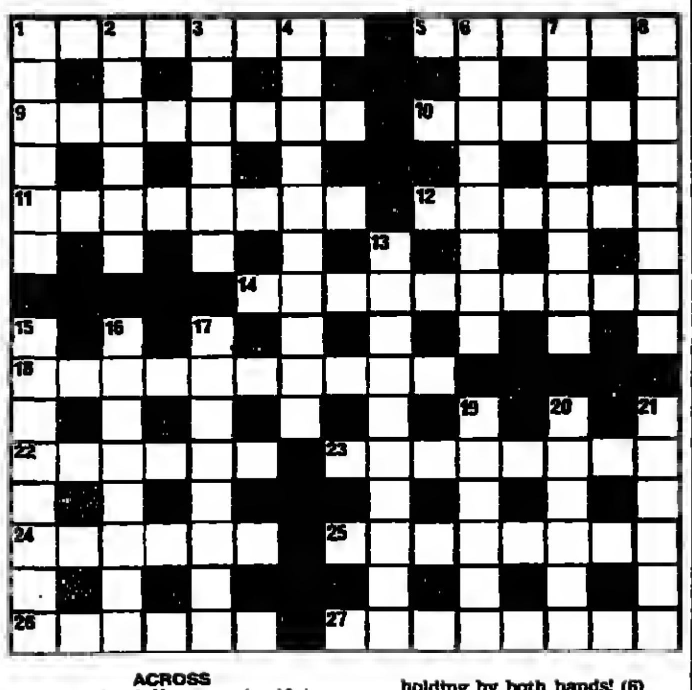
FT UNIT TRUST INFORMATION SERVICE

AUTHORISED UNIT TRUSTS

JOTTER PAD

FT CROSSWORD No.6,666

SET BY QUARK



ACROSS

1 Final delivery signifying retirement (4,4)
5 Fast pace – cause of unrest at work (6)
9 Fall in position of French movement (8)
10 Lady gathers information for business programme (6)
11 Praises e.g. soul – i.e. in exciting manner (8)
12 Play it to fake a death (6)
14 Company book artist group against the law (10)
18 Prepared for Ideal Home exhibition? (5-5)
22 Change pace to get reinforcement to boot (6)
23 Cheapest accommodation ever in a coach (8)
24 Hard ground: cricket could be on it (6)
25 Could describe mass grave (8)
26 Fish round head of river verge (6)
27 Tot up last sum with first taken off as a tailpiece (8)

DOWN

1 Book with margin requires holding by both hands! (6)
2 Herb's artless (6)
3 Got pea swimming in the soup! (6)
4 Ins and outs? It just shows you (5-5)
6 Medical pass? (8)
7 Power restorer who's often with a match (8)
8 Penny loads my variable collection for worship (8)
13 Designed crude strut of a certain framework (10)
15 Find fault in Tom? That's gossip (8)
16 Good at arithmetic? Could be true? Amen! (8)
17 Schoolmasterly walker's caper (8)
19 Arrange seat and come to rest (6)
20 Managed to be there before the detectives. I'm off (6)
21 Where to rest to beat noisy uproar (6)

The solution to last Saturday's prize puzzle will be published with names of winners on Saturday July 9.

FT UNIT TRUST INFORMATION SERVICE

J. Rothschild Fund Managers Ltd – Contd.

INSURANCES

AA Friendly Society
(Investment Mngt M & G Inv Mngt Ltd)

AA Friendly Sy Jan 10	139.4		–	41607

Abbey Life Assurance Co Ltd
80 Holdenhurst Road, Bournemouth 0202 292373

Prop. Ser. 1	235.0	247.4	–	41608
Equity Ser. 1	115.8	121.9	–	41609
Prop. Acc. Ser 2	340.4	358.4	–	41610
Equity Ser 2	131.5	138.5	–	41611
Selective Acc.	281.7	296.6	–	41612
Prop. Ser. 4	268.3	282.5	–	41613
Equity Ser. 4	133.9	140.7	–	41614
Fixed Int. Ser. 4	209.9	221.0	–	41615
Indexed Inv. Ser. 4	120.3	126.0	–	41616
American Ser. 4	260.9	274.7	–	41617
High Inc. Ser. 4	377.5	397.4	–	41618
Japan Ser 4	276.5	291.1	–	41619
Man. Ser. 4	372.6	392.3	–	41620
Money Ser. 4	215.8	227.2	–	41621
European Ser 4	91.8	96.7	–	41622
Pension Funds				
Property	451.3	475.6	–	41623
Equity	950.4	1000.5	–	41624
Selective	300.5	316.2	–	41625
Managed	678.3	714.8	–	41626
Security	395.1	415.9	–	41627
Fixed Int.	234.3	246.7	–	41628
European	124.6	131.2	–	41629
American	214.3	225.6	–	41630
Japan	295.9	311.5	–	41631
Indexed	127.5	134.3	–	41632
International	142.8	150.4	–	41633
Ethical	100.6	105.9	–	46174
High Income	100.8	106.2	–	46173

OTHER UK UNIT TRUSTS

Continued on next page

FT UNIT TRUST INFORMATION SERVICE

Pioneer Mutual Insurance Co Ltd
16 Crosby Rd. N. Waterloo, Liverpool 051-928 6655

Managed Fund	269.1	283.3	–	43272
Max Pen Inc & Cap Fd	344.6	362.8	–	43273
Money Fund	112.9	118.9	–	43274
Pens. Mngd Fd (Init)	89.1	93.8	–	43275
Pens Mngd Fd (Acc)	102.0	107.4	–	43276
Pens FT30 Fd (Init)	129.5	136.4	–	43277
Pens FT30 Fd (Acc)	148.2	156.0	–	43278
Pens O'seas MgFd(Init)	58.8	61.9	–	43279
Pens O'seas MgFd(Acc)	67.3	70.9	–	43280
Pens Fxd Int Fd (Init)	107.3	113.0	–	43281
Pens Fxd Int Fd (Acc)	122.8	129.3	–	43282
Pens Deposit Fd (Init)	101.4	106.0	–	43283
Pens Deposit Fd (Acc)	116.1	122.3	–	43284

Premium Life Assurance Co Ltd
37-39, Perrymount Road, Haywards Heath 0444 458721

American	99.0	105.0	–	43285
Building Soc. Fd	161.0	170.0	–	43286
Balanced	244.0	257.0	–	43287
Deposit	161.0	170.0	–	43288
European	126.0	133.0	–	43289
GT Managed	153.0	162.0	–	43290
Gartmore Mngd	102.0	108.0	–	43291
German	91.0	96.0	–	43292
Gilt	170.0	179.0	–	43293
High Inc	113.0	122.0	–	43294
International Equity	156.0	165.0	–	43295
Japan	221.0	233.0	–	43296
Managed	55.0	58.0	–	43297
Property	256.0	270.0	–	43298
O. W. Imperial Gold	133.0	140.0	–	43299
UK Equity	323.0	340.0	–	43300
Pension Funds				
American	121.0	128.0	–	43301
Building Soc. Fd	153.0	162.0	–	43302
Balanced	187.0	197.0	–	43303
Deposit	151.0	159.0	–	43304
European	124.0	131.0	–	43305
GT Managed	163.0	172.0	–	43306
Gartmore Mngd	99.0	105.0	–	43307
German	86.0	91.0	–	43308
Gilt	143.0	151.0	–	43309
International Equity	115.0	122.0	–	43310

Prudential Holborn Life Ltd
30 Old Burlington St, London W1X 1LB 01-439 3134

Managed Fd	441.1	464.4	–	43513
Equity Fd	892.2	939.2	–	43514
Intel. Fd	311.6	328.1	–	43515
Fixed Inc. Fd	364.4	383.6	–	43516
Prop. Fd	325.6	342.8	–	43517
Cash Fd	237.3	250.0	–	43518
Pacific Basin Fd	176.4	185.7	–	43519
North American Fd	127.6	134.4	–	43520
European Fd	129.2	136.1	–	43521
Holborn Balanced Gwth Fd	102.4	107.0	–	43522
Holborn Strategic Gwth Fd	101.0	106.4	–	43523

Prudential Holborn Pensions Ltd
30 Old Burlington St, London W1X 1LB 01-439 3134

Managed	480.9	506.3	–	43524
Equity	694.9	731.5	–	43525
Global Equity	200.1	210.7	–	43526
Fixed Interest	375.9	395.7	–	43527
Property	329.5	336.4	–	43528
Cash	141.0	148.5	–	43529
Index Linked Gilt	167.0	175.8	–	43530
Guaranteed	8.56		–	43531
International Money	185.9	195.7	–	43532
North American Fd	56.0	59.8	–	43533
Japanese Fund	123.0	129.5	–	43534
European Fund	69.4	73.1	–	43535
Special Situations Fd	98.7	103.9	–	43536
Communications Fund	85.6	90.2	–	43537
Smaller Cos Fund	94.8	105.1	–	43538

Prudential Pensions Limited
Holborn Bars, London EC1N 2NH 01-405 9222

Discretary June 23	£128.64	132.38	–	43539
Equity Fund June 23	£140.67	144.85	–	43540
Intl Fund June 23	£21.00	21.70	–	43541
Intl Bond Fd June 23	£10.40	10.54	–	43542
Fixed Int June 23	£68.59	69.50	–	43543
Index Linked June 23	£53.06	53.72	–	43544
Property Fund Jun 23	£87.36	92.06	–	43545
Cash Fund June 23	£18.7300	18.7300	–	43546
Pru-Linked Retirement Plan				
Managed Fd Jun 22	322.1	335.6	–	43547
Cash Fund Jun 22	176.7	184.1	–	43548

MANAGEMENT SERVICES

OFFSHORE AND OVERSEAS

UK LISTED

OFFSHORE INSURANCES

FT UNIT TRUST INFORMATION SERVICE

OTHER OFFSHORE FUNDS

LONDON SHARE SERVICE

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

Amount £m	Stock	Price £	Red. Yld.	Last xd	Interest Due	City-line
[illegible]	Treas. 9½pc '88	100	9.21	21.3	25 Apr 25 Oct	1346
[illegible]	Treas 11½pc 1989	101¼	9.35	18.1	22 Aug 22 Feb	1291
[illegible]	Treas 9½pc Cov 1989	100	9.47	11.9	10 Oct 10 Apr	1348
[illegible]	Treas 5pc 1989	96	6.47	26.03	15 Nov 15 May	1327
[illegible]	Treas 10½pc 1989	100	9.48	09.04	14 Dec 14 Jun	1287
[illegible]	10pc 1989	100	9.66	29.12	1 Feb 1 Aug	1250
[illegible]	11pc 1989	101	9.64	24.2	29 Mar 29 Sep	1256
[illegible]	Treas 5pc 1986-89	96	8.01	9.3	15 Apr 15 Oct	1329
[illegible]	10¼pcCv '89	101	9.12	8.4	15 May 15 Nov	1255
[illegible]	Treas 13pc 1990	104	9.67	8.6	15 Jul 15 Jan	1330
[illegible]	11pc 1990	103	9.69	6.1	12 Aug 12 Feb	1257
[illegible]	Exch. 12½pc 1990	104	9.73	17.8	22 Sep 22 Mar	1262
[illegible]	Treas. 3pc 1990	92	7.61	5.4	8 Nov 0 May	1325
[illegible]	Treas 8¼pc 1987-90	98	9.28	09.04	15 Dec 15 Jun	[illegible]
[illegible]	Treas. 8pc Cv 1990	98	8.82	9.5	16 Jul	[illegible]
[illegible]	Treas. 10pcCv 1990	100	9.66	21.3	25 Apr 25 Oct	[illegible]
[illegible]	Exch 2½pc 1990	89	7.29	16.10	22 May 22 Nov	[illegible]
[illegible]	Treas 11¾pc 1991	104	9.50	4.12	10 Jul 10 Jan	[illegible]
[illegible]	Funding 5¾pc '87-91	93	8.52	1.9	5 Oct 5 Apr	[illegible]
[illegible]	Treas. 3pc 1991	88	7.48	6.4	13 Mar 13 May	[illegible]
[illegible]	Treas 10pc Cv '91	101	9.22	06.05	12 Jan	[illegible]
[illegible]	Exch. 11pc 1991	103	9.46	21.3	25 Apr	[illegible]
[illegible]	Treas. 8pc 1991	95	9.53	04.04	10 Jun 10 Dec	[illegible]
[illegible]	Treas 12¾pc 1992	109	9.48	15.5	22 Jul	[illegible]
[illegible]	Treas 10pc 1992	101	9.49	15.1	21 Aug 21 Feb	[illegible]
[illegible]	Treas. 8pc 1992	95	9.52	11.6	13 Oct	[illegible]
[illegible]	Treas 10½pc Cv 1992	102	9.48	1.9	7 Mar 7 May	[illegible]
[illegible]	Treas. 3pc 1992	84	7.59	4.11	11 Dec 11 Jun	[illegible]
[illegible]	Treas. 12¼pc '92	108	9.57	19.1	25 Feb 25 Aug	[illegible]
[illegible]	Exch 13½pc 1992	112	9.72	17.8	22 Mar 22 Sep	[illegible]
[illegible]	Treas. 8¼pc 1993 (40)	38	9.66			—
[illegible]	Treas 10pc 1993	101	9.64	9.3	15 Oct 15 Apr	1279

Five to Fifteen Years

Amount £m	Stock	Price £	Red. Yld.	Last xd	Interest Due	City-line
1,100	Treas 12½pc 1993	111	9.68	18.03	14 Jan	[illegible]
600	Funding 6pc 1993	90	8.28	8.2	15 Mar 15 Sep	[illegible]
1,250	Treas 13¾pc 1993	116	9.70	19.10	23 May	[illegible]
1,050	Treas. 8½pc 1994	95	9.64			—
600	Treas 14½pc 1994	120	9.66	25.1	1 Sep 1 Mar	[illegible]
1,100	Exch 13½pc 1994	116	9.81	21.3	27 Oct 27 Apr	[illegible]
1,400	Treas. 10pc Ln. 1994	101	9.65	04.04	9 Dec	[illegible]
1,550	Exch. 12¼pc 1994	112	9.83	18.1	22 Feb 22 Aug	[illegible]
1,600	Treas 9pc 1994	97	9.54	11.4	17 May	[illegible]
2,350	Treas 12pc 1995	110	9.81	20.5	25 Jul	[illegible]
229	Exch 3pc Gas 90-95	78	6.91	25.9	1 Nov 1 May	[illegible]
2,100	Exch. 10¼pc 1995	102	9.74	14.5	21 Jul	[illegible]
1,000	Treas 12¾pc 1995	115	9.77	8.4	15 May	[illegible]
900	Treas. 14pc '96	121	9.94	15.5	22 Jul	[illegible]

BRITISH FUNDS—Contd

Amount £m	Stock	Price £	Red. Yld.	Last xd	Interest Due	City-line
1,000	Exch. 12pc '13-'17	126	9.32	6.5	12 Jun 12 Dec	1260

Undated

Amount £m	Stock	Price £	Red. Yld.	Last xd	Interest Due	City-line
359	Consols 4pc	43	—	29.12	1 Feb 1 Aug	1239
1,909	War Loan 3½pc	38	—	25.03	1 Jun 1 Dec	1352
154	Conv. 3½pc '61 Aft.	51	—	24.2	1 Apr 1 Oct	1243
56	Treas. 3pc '66 Aft.	32	—	1.3	5 Apr 5 Oct	1324
276	Consols 2½pc	27	—	1.6	5 Jan Ap Jul Oct	1238
475	Treas. 2½pc	27	—	24.2	1 Apr 1 Oct	1315

Index-Linked

Amount £m	Stock	Price £	Red. Yld.	Last xd	Interest Due	City-line
500	Treas 2pc IL '90 (84.6)	127	2.44	23.5	25 Jul 25 Jan	1311
650	Do. 2pc '92 (97.8)	102	2.90	17.8	23 Sep 23 Mar	1312
400	Do. 2pc '94 (40)	40	3.95			—
1,000	Do 2pc '96 (67.9)	138	3.23	8.2	16 Mar 16 Sep	1313
900	Do 2½pc '01 (78.3)	113	3.86	18.8	24 Mar 24 Sep	1316
800	Do. 2½pc '03 (78.8)	110	3.91	13.03	20 Nov 20 May	1317
1,100	Do. 2pc '06 (69.5)	111	3.93	13.5	19 Jan 19 Jul	1314
950	Do. 2½pc '09 (78.8)	104	3.95	13.03	20 Nov 20 May	1318
1,350	Do. 2½pc '11 (74.6)	108	3.94	28.1	23 Feb 23 Aug	1319
1,100	Do. 2½pc '13 (89.2)	89	3.93	11.1	16 Feb 16 Aug	1320
1,600	Do 2½pc '16 (81.6)	96	3.90	20.5	26 Jan 26 Jul	1321
1,400	Do. 2½pc '20 (83.0)	94	3.83	10.3	16 Oct 16 Apr	1322
800	Do 2½pc '24 (97.7)	79	3.79	10.5	17 Jan 17 Jul	1323

Prospective real redemption rate on projected inflation of (1) 10% and (2) 5%. (b) Figures in parentheses show RPI base month for indexing, (ie 8 months prior to issue) and have been adjusted to reflect rebasing of RPI to 100 in January 1987. Conversion factor 3.945. RPI for October 1987: 102.9 and for May 1988: 106.2

INT. BANK AND O'SEAS GOVT STERLING ISSUES

Amount £m	Stock	Price £	Red. Yld.	Last xd	Interest Due	City-line
50	African Dv Bk 11¼ Ln 2010	103	10.67	3.12	4 Jan 4 Jul	—
100	Asian Dev Bk 10¼pcLn2009	100	10.21	19.2	24 Mar 24 Sep	—
100	Australia 13½pc 2010	125	10.53	23.12	28 Jan 28 Jul	—
100	Do. 11¾pcLn2015	108	10.47	24.3	26 Apr 26 Oct	—
75	Euro Inv Bk 11pc Ln 2002	106	10.16	23.2	27 Mar 27 Sep	—
100	Do. 10½pc2004	101	10.17	22.4	22 Mar 22 Nov	—
75	Int-Am Dev Bk 12½pc 2003	116	10.32	7.12	8 Jan 8 Jul	—
175	Do. 9¾pcLn 2015	94	10.32	13.4	15 May 15 Nov	—
75	Mlysia 10⅝pcLn 2009	96	11.25	23.12	31 Jan 31 Jul	—
50	Sweden 13½pc Ln 2010	125	10.46	21.12	27 Jan 27 Jul	—
50	Utd Mexican States 16½pc 2008	109	14.91	25.1	1 Mar 1 Sep	—

CORPORATION LOANS

COMMONWEALTH & AFRICAN LOANS

LOANS

Building Societies

Over Fifteen Years

Public Board and Ind.

Financial

FOREIGN BONDS & RAILS

AMERICANS

Continued on next page

Money Market Trust Funds

Money Market Bank Accounts

LONDON SHARE SERVICE

AMERICANS – Contd

Market Cap. £m	Stock	Price £	Div Gross	Y'ld Gr's	Last xd	Dividends Paid	City-line
4,016.1	Tenneco $5	27¼	$3.04	6.1	24.5	Mr Jn Sp Dc	4194
6,769.5	Texaco $6.25	27⅞	♦$3.00	5.9	28.4	Mr Je Se De	4200
5,336.1	Time Inc. $1	56¼xd	$1.00	1.0	24.01	Mr Ju Se De	4234
1,518.2	Transamerica $1	19⅝	$1.84	5.1	31.3	Ja Ap Ju Oc	4289
524.1	Transworld Corp $5	10¼	20c	1.1	11.11	Fe My Au No	–
606.6	TRINOVA Corp.	17¾xd	56c	1.7	9.11	Mr Je Se De	4309
5,623.6	USX $1	18⅞	$1.20	3.6	30.10	Mr Je Se De	4380
2,951.3	Utd. Technologies	22½xd	$1.60	3.9	19.5	Mr Jn Sp Dc	4381
6,487.0	US West‖	32⅛	$3.52	6.0	13.4	Fb My Ag No	–
4,686.1	Waste Management $1	20¼xd	48c	1.3	17.5	Ap Jly Oc Jan	4439
1,116.4	Whirlpool $1	16¼	$1.10	3.7	25.01	Mr Ja Se De	–
2,036.0	♥Woolworth $3½	31	$1.64	2.9	19.11	Mr Je Se De	4540

CANADIANS

Market Cap. £m	Stock	Price £	Div Gross	Y'ld Gr's	Last xd	Dividends Paid	City-line
–	ABM Gold Corp‖	199p	–	–	–	–	–
–	♥Abbot Energy Corp	25p	–	–	–	–	–
734.4	♥Amer. Barrick Res.	12¼	–	–	–	–	–
–	American Lightwave	6p	–	–	–	–	–
–	♥Armeno	23p	–	–	–	–	–
–	Augmitto Expln.	67p	–	–	–	–	–
1,377.5	Bk. Montreal ¶	15¼	$2.00	6.7	9.5	Fb My Ag Nv	–
1,103.0	Bk. Nova Scot.‖	665p	76c	5.0	28.3	Ja Ap Ju Oc	–
4,795.8	BCE ‖	17¼xd	$2.44	6.1	6.6	Ap Jy Oc Ja	–
272.9	♥Bow Valley‖	659p	♦40c	2.7	15.12	May Nov.	–
874.1	♥Brascan‖	12⅞	88c	3.0	28.10	Ja Ap Jy Oc	–
60.1	♥Breakwater Res.	268p	10c	1.6	–	–	–
1,780.2	Can. Imp Bank‖	11½	$1.16	4.5	29.12	Fe My Au No	–
3,295.9	Can. Pacific ‖	13⅞	60c	2.4	28.3	July Jan.	–
18.9	Do. 4pc Deb £100	40½	4%	9.9	24.5	July Jan	2051
–	Central Capital "A" ‖	500p	–	–	–	–	–
74.2	Cons. TVX Min.	458p	–	–	–	–	–
–	Danbus Res.	262p	–	–	–	–	–
–	Derlan Inds.	595p	11.75c	0.9	3.6	Mr Jn Se De	–
1,183.5	♥Echo Bay Mines	12½	14c	0.5	–	Ja Sp De Mar	–
–	Energex Minerals	36p	–	–	–	–	–
–	Euro-Asia Capital Ltd.	98p	–	–	–	–	–
111.8	♥Galactic Resources	375p	–	–	–	–	–
15.8	♥Geodome Res.	119p	–	–	–	–	–
54.4	Granges Expln‖	255p	–	–	–	–	–
–	♥Gt. Pacific Res.	9½p	–	–	–	–	–
–	♥Gulf Canada‖	875p	52c	2.6	26.5	Ja Ap Jy Oc	–
91.7	♥Hawker Sid Can‖	11¼	$1.08	4.2	15.11	Ap Jy De Ja	–
–	Henlys Group	500p	–	–	–	–	–
270.6	♥Hudson's Bay ‖	906p	60c	2.9	2.10	Mr Jn Sp De	–
4,368.4	♥Imperial Oil‖	26⅞	$1.80	3.0	28.11	Mr Je Se De	–
2,056.9	Inco‖	19½	US$0.80	2.2	27.4	Jan.Ap.J.O.	–
–	♥Intl. Corona Res.	442p	–	–	–	–	–
–	♥Inland Nat. Gas $1	565p	60c	4.7	30.12	Fe My Au No	–
–	♥Lacana Mining Corp‖	585p	015c	1.1	–	–	–
12.6	Madeleine Mines	216p	–	–	–	–	–
–	♥Muscocho Expln.	278p	–	–	–	–	–
–	♥Ntnl Business Syst.‖	124p	–	–	–	–	–
–	♥Nevada Goldfields	193p	–	–	–	–	–
490.4	♥Rio Algom	11½	$1.30	5.0	5.11	June Dec	–
2,114.5	Royal Bk. Can.‖	15¼	$2.08	6.0	20.10	Mr Je Se De	–
–	♥Royex Gold Mining‖	[illegible]	–	–	–	–	–
3,127.5	Seagram‖	32¼	US$1.20	2.0	14.2	Se De Mr Ju	–
–	♥Sonora Gold Corp‖	[illegible]	–	–	–	–	–
–	Spiral Eng	[illegible]	–	–	–	–	–
–	Tara Pore Tech. Corp.‖	[illegible]	–	–	–	–	–
2,247.7	Toronto-Dom. Bk.‖	15¼	$1.12	3.2	22.12	F My Au No	–
–	♥Trans Atlantic Res‖	[illegible]	–	–	–	–	–
875.0	♥Trans Can Pipe	[illegible]	68c	4.6	1.12	Ja Ap Jy Oc	–
306.3	Varity Corp‖	[illegible]	B-	–	11.77	–	–

BANKS, HP & LEASING

Market Cap. £m	Stock	Price	Div Net	Y'ld Gr's	Last xd	Dividends Paid	City-line
1,476.6	ANZ SA1	[illegible]	†021c	4.6	31.5	Feb July	1698
506.6	Allied Irish	[illegible]	065.3%	5.7	23.5	Dec July	1364
1,239.5	Algemene Fl.10	[illegible]	027%	6.4	3.5	Aug May	1567
12.8	Anglo Irish	[illegible]	019.6%	6.3	23.5	June Dec	1355
146.7	Ansbacher (H.) 1p.	[illegible]	2.0	3.3	21.3	April	1624
2,425.5	Banco Bilbao S.A.	£37[illegible]	067.2%	4.4	9.12	Dec June	–
3,959.0	Banco de Santander	£34[illegible]	022%	1.6	3.5	March Sept	–
[illegible]	Bank Ireland	[illegible]	[illegible]	[illegible]	23.5	July Dec	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Hire Purchase, Leasing, etc.

[illegible]

BEERS, WINES & SPIRITS

[illegible]

BUILDING, TIMBER, ROADS

[illegible]

BUILDING, TIMBER, ROADS – Contd

[illegible]

CHEMICALS, PLASTICS

[illegible]

DRAPERY AND STORES

[illegible]

DRAPERY AND STORES – Contd

[illegible]

ELECTRICALS

[illegible]

ENGINEERING

[illegible]

ENGINEERING – Contd

[illegible]

FOOD, GROCERIES, ETC

[illegible]

HOTELS AND CATERERS

[illegible]

INDUSTRIALS (Miscel.)

[illegible]

INDUSTRIALS (Miscel.) – Contd

[illegible]

INSURANCES

[illegible]

LEISURE

[illegible]

هكذا من الأصل

LONDON SHARE SERVICE

LEISURE—Contd

[illegible]

MOTORS, AIRCRAFT TRADES

[illegible]

Commercial Vehicles

[illegible]

Components

[illegible]

Garages and Distributors

[illegible]

NEWSPAPERS, PUBLISHERS

[illegible]

PAPER, PRINTING, ADVERTISING

[illegible]

PAPER, PRINTING, ADVERTISING — Contd

[illegible]

PROPERTY

[illegible]

SHIPPING

[illegible]

SHOES AND LEATHER

[illegible]

SOUTH AFRICANS

[illegible]

TEXTILES

[illegible]

TEXTILES—Contd

[illegible]

TOBACCOS

[illegible]

TRUSTS, FINANCE, LAND

Investment Trusts

[illegible]

TRUSTS, FINANCE, LAND—Contd

[illegible]

Finance, Land, etc

[illegible]

OIL AND GAS

[illegible]

OIL AND GAS—Contd

[illegible]

OVERSEAS TRADERS

[illegible]

PLANTATIONS

Rubbers, Palm Oil

[illegible]

Teas

[illegible]

MINES

Central Rand

[illegible]

Eastern Rand

[illegible]

Far West Rand

[illegible]

O.F.S.

[illegible]

Diamond and Platinum

[illegible]

Central African

[illegible]

Finance

[illegible]

Australians

[illegible]

Far Furr Ims. per Guolla Inc.

[illegible]

MINES—Contd

[illegible]

Tins

[illegible]

Miscellaneous

[illegible]

THIRD MARKET

[illegible]

1.42	Ovoca Gold IR 2p... γ	49	—	—	—	—	1470
4.81	Peerant Grp. 2p.... γ	27	d0.2	1.0	—	—	4969
6.75	Propeller 1p. . ..... γ	54	—	—	—	—	3729
2.76	Publishing Hldgs.5p.. γ	17	—	—	—	—	3735
8.98	Royal Sovereign Grp 10p.	203	4.6	3.0	11.4	May Nov	1505
1.72	Scott Pickford 10p... γ	24½	3.1	16.9	—	—	5062
5.27	Seacoo Hldgs........ γ	74	—	—	—	—	3968
5.25	Staks Hldgs. 5p...... γ	19	—	—	—	—	4625
4.99	Swanyard Studios 1p γ	3½	—	—	—	—	4666
20.8	Takare........ .... γ	230	b1.0	8.6	—	—	4647
12.7	Theme Holdings..... α	66	♦1.1	2.2	25.4	June Dec	4206
3.47	Tomorrows Leisure 20p. γ	31	—	—	—	—	4248
20 6	Tallow Dil 10p....... γ	17	—	—	—	—	4886
4.76	UPL Group 10p ..... γ	118	L2.41	2.7	23.5	—	[illegible]
5.88	Unit Group .... γ	145	5 0	4.7	9.1	Jan July	[illegible]
6.70	Video Tape Record 5p γ	97	L2.3	3.2	9 5	—	[illegible]

NOTES

Stock Exchange dealing classifications are indicated to the right of security names: α Alpha, β Beta, γ Gamma.

Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Yields are based on middle prices, are gross, adjusted to ACT of 25 per cent and allow for value of declared distribution and rights.

- ● "Tap Stock"
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application
- ♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
- ♣ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Dealt in under Rule 535(3).
- # Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue.
- ♦ Merger bid or reorganisation in progress
- ♣ Not comparable
- ♠ Same interim; reduced final and/or reduced earnings indicated
- § Forecast dividend.
- ‡ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ★ Cover does not allow for shares which may also rank for dividend at a future date.
- ‖ No par value

B.Fr. Belgian Francs. Fr. French Francs §§ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. a Annualised dividend. b Figures based on prospectus or other offer estimate. c Cents. d Dividend rate paid or payable on part of capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending s Dividend and yield exclude a special payment. t Indicated dividend. u Forecast, or estimated annualised dividend rate. v Subject to local tax. y Dividend and yield based on merger terms. z Dividend and yield include a special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1986-87. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1986. K Dividend and yield based on prospectus or other official estimates for 1987-88. L Estimated annualised dividend. M Dividend and yield based on prospectus or other official estimates for 1988. N Dividend and yield based on prospectus or other official estimates for 1987. P Figures based on prospectus or other official estimates for 1987. Q Gross. R Forecast annualised dividend. T Figures assumed. W Pro forma figures. Z Dividend total to date. Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xd ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Albany Inv 20p.... γ	70	......
Craig & Rose £1.. γ	700xd	......
Finlay Pkg 5p.... γ	81	......
Holt (Jos) 25p.... γ	£11⅝	......

IRISH

Nat. 9¾ % 84/89..	£100¾	......
9pc Cap Ln. 1996..	£96¾	......
Fin. 13% 97/02...	£119	......

Arnotts .... γ	410	+18
CPI Hldgs. .... γ	110	−6
Carrol Inds. .... γ	150xd	......
Hall (R. & N.I....	168	+3
Helton Hldgs....... γ	52	......
Irish Ropes. .... γ	165	......
Unidare............ γ	410	......

TRADITIONAL OPTIONS

3-month call rates

Industrials

	p
Allied-Lyons	35
Amstrad	16
BAT	36
BOC Grp	34
BSR	8
BTR	22
Barclays	35
Beecham	42
Blue Circle	38
Boots	19
Bowaters	35
Brit Aerospace	35
Brit. Telecom	22
Burton Ord.	21
Cadburys	32
Charter Cons	38
Comm Union	34
Courtaulds	34
FKI Babcock	12
FNFC	23
Gen Accident	85
GEC	13
Glaxo	85
Grand Met	45
GUS 'A'	95
Guardian	85
GKN	28
Hanson	12
Hawker Sidd	48
ICI	72
Jaguar	26
Ladbroke	38
Legal & Gen	25
Lex Service	33
Lloyds Bank	26
Lucas Inds	58
Marks & Spencer	17
Midland Bk	37
Morgan Grenfell	30
NEI	10
Nat West Bk	52
P & O Dfd	52
Plessey	16
Polly Peck	30
Racal Elect	32
RHM	30
Rank Org Ord	64
Reed Intnl	36
STC	24
Sears	11
TI	28
TSB	9
Tesco	14
Thorn EMI	60
Trust Houses	21
T&N	17
Unilever	42
Vickers	14
Wellcome	45

Property

Brit Land	30
Land Securities	52
MEPC	52
Peachey	50

Oils

Brit. Gas	15
Brit Petroleum	24
Burmah Oil	58
Charterhall	3
LASMO	40
Premier	7½
Shell	95
Ultramar	26

Mines

Cons Gold	95
Lonrho	20
RTZ	35

A selection of Options traded is given on the London Stock Exchange Report Page

This service is available to every Company dealt in on Stock Exchanges throughout the United Kingdom for a fee of £948 per annum for each security.

CONTRACTS

Anaheim Centre project

A $30m (£16.8m) contract to build a 340,000 sq ft extension to the Anaheim Convention Centre, California, has been awarded to TAYLOR WOODROW CONSTRUCTION CORP. of New York. Work on the 20-month project has already started and is scheduled for completion in summer, 1990.

The contract, which has been placed by the Community Center Authority of the City of Anaheim, calls for the construction of a 158,000 sq feet exhibition hall at the same level as the existing three halls. This building will be of structural concrete and steel with a steel roof and will increase the total exhibition space at the centre to 570,000 sq ft. An underground, 530-vehicle garage will be built in structural concrete as part of the scheme with another garage, with spaces for 1,210 vehicles, to be built adjacent to the hall.

A £7m contract to build a Crown and County courthouse in Northampton has been awarded by the Property Services Agency (PSA) to Taylor Woodrow. The contract calls for the construction of a 7,000 sq metre courthouse in Lady's Lane in the town centre providing six courtrooms and ancillary accommodation, together with external works. The work is scheduled for completion in autumn, 1990.

★

Three companies belonging to the WILLMOTT DIXON GROUP have been awarded contracts worth £4.2m. They include work for Henleys Medical Supplies to extend and refurbish premises in Welwyn Garden City, the construction of a transport depot for the Automobile Association at Brooklands Industrial Estate in Weybridge, work on a building in Huntingdon for Thandar Electronics, and extensions and adaptations to a school in Peterborough for Cambridge County Council.

£28m orders for Lovell company

LOVELL CONSTRUCTION (SOUTHERN) has been awarded a bumper crop of contracts totalling almost £28m. The largest is a £13m two-year design and construct contract for eight high-technology and light industrial buildings at Farnborough, Hampshire, for Municipal Mutual Insurance. The site adjoins the Apollo Rise project, currently being built by Lovell under a £3m contract for the same client providing high technology industrial units with associated car parking and landscaping.

At Worthing, Sussex, a £5.3m contract for a retail and shopping scheme has been awarded by locally-based developers The Avon Group. The scheme involves the construction of a store of approximately 27,000 sq ft, pre-let to C & A, plus 25,000 sq ft of shopping divided into 11 units, and a 14,000 sq ft terrace of offices all designed to complement the late Regency architecture of the area.

At The Causeway, Egham, Lovell has been awarded a £4.2m contract by Fairfield Properties Co (George Row), a subsidiary of MEPC. Due for completion by July 1989, the 52-week contract involves the construction of a three-storey office development comprising some 50,600 sq ft. The company has also received a £2.7m contract to build industrial units and offices on the Vestry Road Industrial Estate, Otford for Otford Properties, Sevenoaks, Kent.

Fitting out work at Seer Green, near Beaconsfield, Bucks, worth £1.1m will be carried out for Perkin Elmer. This is in addition to the £2.2m design and build contract being built by Lovell to extend and refurbish the client's existing building.

Other new contracts awarded to Lovell Construction (Southern) include a £709,000 warehouse at Stratford for Blyth and Taylor and a £708,000 design-and-build office block at Bagshot for Claremount Estates.

Putney shopping centre

SIR ROBERT McALPINE & SONS has started work on a £22m contract for GRE Properties - a subsidiary of GRE - on Putney Exchange, a covered shopping centre on Putney High Street. The £40m centre will be built on a 12,500 sq metres site with a total floor area of 40,000 sq metres. The complex will contain shopping malls, 25 market stalls, a food court, wine bar, car parking on two levels and deep basement service area.

Construction of the 165 sq metres x 130 metres building will be of reinforced concrete with steel-framed atrium, steel/timber trusses, pantile roofing and brick and block work for external walls. Ancilliary work includes the installation of services such as glass feature lifts, goods lifts, escalators and peripheral paving.

Sir Robert McAlpine & Sons has also won a £1.4m project for the construction of a post office and sorting office in Burston Road, Putney, for GRE Properties, a subsidiary of GRE. The project will cover a site area of 950 sq metres and will be of steel-frame construction with reinforced concrete floors, brick faced external walls, and colour coated aluminium pitched roof. The two-storey 35 metres x 26 metres building will have a floor area of 2,241 sq metres. In addition to the post office sorting areas there will be a staff rest room and canteen. The project is due for completion in December 1988.

Newbury hotel scheme

KIER MOSS, part of the contracting division of Beazer, has been awarded contracts valued at £8.5m. The largest is for a 720-bedroom hotel with leisure and conference facilities for Stakis (£3.6m)at Chieveley, Newbury. At Patchway in Bristol the company is to build five business units with associated services and access road (£1.7m) for Wadehurst Properties and has just begun work on a remodelling contract (£680,000) for Lloyds Bank at Bedminster. Public sector contracts include a Rutherford laboratory for the PSA (£1.5m) at RCMS Shrivenham.

Kier International has been awarded a £2.7m contract for the construction of a passenger terminal and control tower in Belize, Central America, by the Government of Belize. The two-storey terminal complex includes a 7,000 sq metre restaurant, a shopping centre and security and customs facilities.

APPOINTMENTS

Management moves at Higgs and Hill

HIGGS and HILL's construction division is making the following appointments on July 1. Mr T.A. Brailsford will succeed Mr E.H. Potter as managing director of Higgs and Hill Management Contracting. Mr Potter will continue to act as chairman of that company and as managing director of Higgs and Hill Construction Holdings. Mr K.A. Cullen will succeed Mr N.L.G. Lambert as managing director of Higgs and Hill Building. Mr Potter will remain chairman of that company, and Mr Lambert will continue to act as deputy managing director of Higgs and Hill Construction Holdings. Mr L.W. Adams will be appointed a director of Higgs and Hill Construction Holdings and will continue to act as managing director of Diespeker Concrete Company. Mr R.E. Mansell will succeed Mr Cullen as the divisional director responsible for the northern region. Mr J.R. Dakin will succeed Mr A.R.L. Munro as the divisional director responsible for the Midlands region. Mr R.A. Simkin will be appointed a divisional director of Higgs and Hill Management Contracting.

★

BRITISH & COMMONWEALTH MERCHANT BANK has appointed Mr Ian McAndrew director and compliance officer. Mr Peter Morley has been made director, capital markets, and Mr Paul Ormrod, director, special assignments.

★

M & G SECURITIES has appointed Mr Graeme F. Sinclair to the board.

★

Mr Bernard Goodall has become managing director of CASTLEGATE SECURITIES.

★

Mr Philip Gaunt has been appointed group secretary designate and company secretary of the ELLIOTT GROUP. He was company secretary and associate director of finance at Euromoney Publications. He succeeds Mr Arnold Bullough who retires from the group on August 31.

★

Mr Philip Feakin has been appointed corporate treasurer of TIPHOOK.

★

Following its acquisition by Rentokil Group, the board of SHIRE COMPUTERS & SERVICES has been restructured to comprise: Mr Clive Thompson, chairman (group chief executive of Rentokil); Mr R.C. Payne, deputy chairman; Mr C. Braithwaite, managing director; Mrs C. Austin, finance director; and Mr W.J.M. Fenwick.

★

CLARK WHITEHILL has appointed Mr Frederick A. Van Zweeden as director of its international tax division from July 1. He was head of the international tax division of Spicer and Oppenheim (London), and started his career in the Dutch Ministry of Finance.

★

Mr Ken Hansen has been appointed managing director of VERIFONE (UK). He was with Ericsson Information Systems.

★

Mr Stephen Rankin, formerly head of the CBI's European office, has been appointed managing director of MARKET ACCESS EUROPE, a subsidiary public affairs company established in Brussels by Market Access International. Mr John Cahill, head of the CBI's policy unit, has been appointed head of research and economic managemeot at the parent public affairs consultancy in London.

★

Mr Stephen Manton has beeen appointed chief executive of IRPC GROUP, specialist legal expenses insnrance subsidiary of Willis Faber. The company's founder, Mr Dennis Hunt, becomes deputy chairman, with responsibility for development of new business areas. Mrs Linda Bellis and Mr Bill McKnight join the board.

★

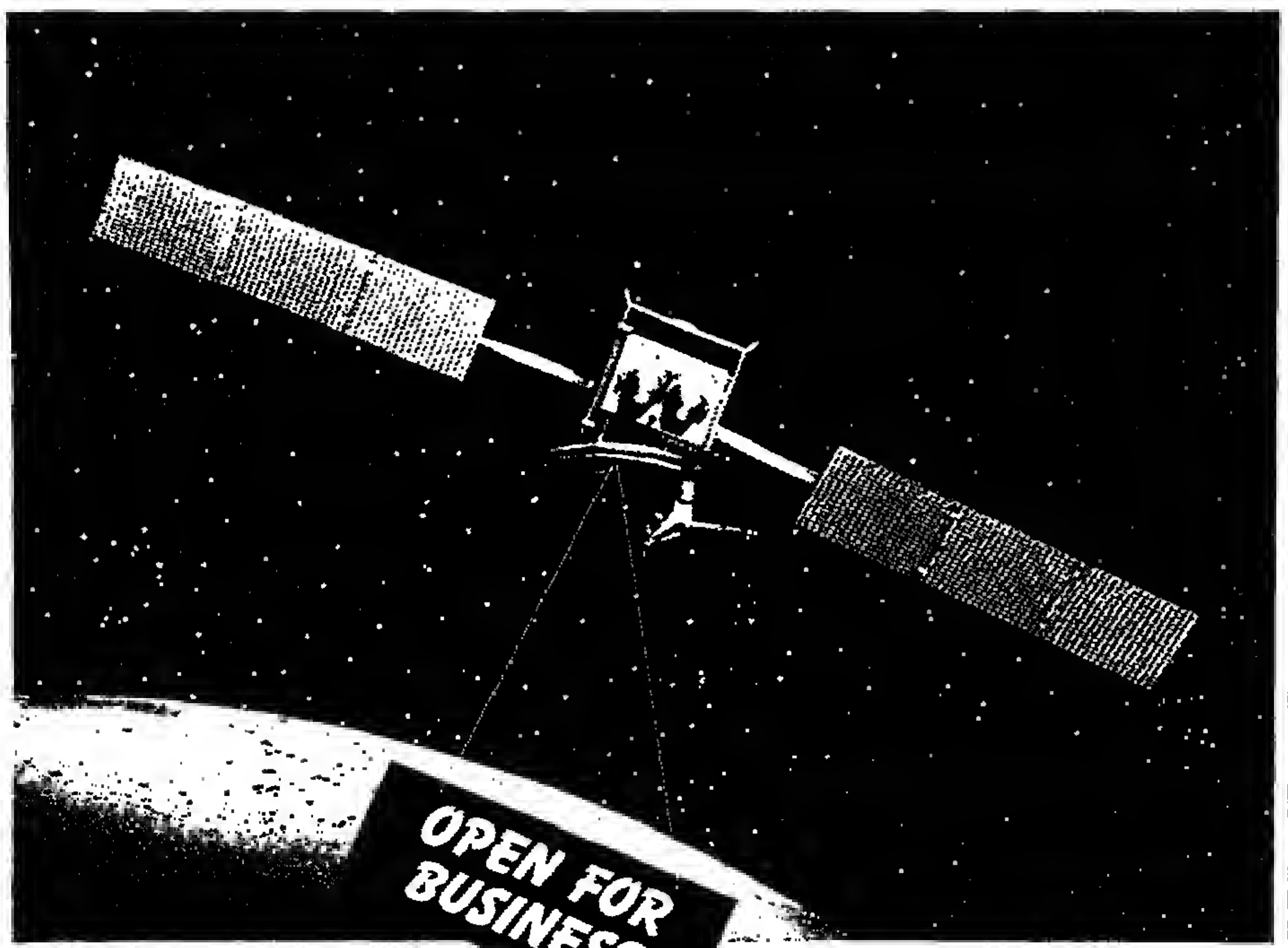
McKECHNIE has appointed Mr Bob Collard as managing director of Anson Plastics. He was managing director of Sheller-Clifford. Mr David Heathcock has been appointed group manufacturing executive of McKechnie from August 1. He is managing director of the group's Paxton business, where he is succeeded by Mr Keith Battrick, who was marketing and sales director.

★

Mr Tim O'Sullivan has been appointed a main board director of KYLE STEWART, retaining responsibility for the group's estimating and pre-contract services. Mr Gerry Vasey has been appointed managing director of group subsidiary Lakers Process Engineering.

★

SHEARSON LEHMAN HUTTON has appointed Mr Stuart McLean as executive director and head of the research department in London. He joins from Credit Suisse First Boston, where he was director in charge of research.



هكذا من الأصل

WORLD STOCK MARKETS

AUSTRIA

BELGIUM/LUXEMBOURG

DENMARK

FINLAND

FRANCE

JAPAN

FRANCE (continued)

GERMANY

ITALY

NETHERLANDS

NORWAY

SPAIN

SWEDEN

SWITZERLAND

SOUTH AFRICA

AUSTRALIA

AUSTRALIA (continued)

HONG KONG

SINGAPORE

NOTES – Prices on this page are as quoted on the individual exchanges and are last traded prices. (u) unavailable. # Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all.

INDICES

	June 24	June 23	June 22	June 21	1988 High	1988 Low
AUSTRALIA						
All Ordinaries (1/1/80)	1574.4	1600.8	1612.9	1602.0	1618.2 (20/6)	1170.7 (10/2)
All Mining (1/1/80)	812.0	830.2	840.1	827.7	842.1 (20/6)	532.4 (10/2)
AUSTRIA						
Credit Aktien (30/12/84)	177.33	177.12	176.73	177.17	178.92 (21/3)	163.98 (11/2)
BELGIUM						
Brussels SE (1/1/80)	5006.3	5012.5	4930.3	4925.7	5043.1 (9/3)	3608.35 (4/1)
DENMARK						
Copenhagen SE (3/1/83)	220.44	220.54	218.92	217.47	220.54 (23/6)	180.68 (4/1)
FINLAND						
Unitas General (1975)	(c)	726.1	725.1	728.4	730.8 (17/6)	530.6 (15/2)
FRANCE						
CAC General (31/12/82)	(u)	(a)	(u)	343.8	353.6 (15/6)	251.3 (29/1)
Ind. Tendance (31/12/87)	(u)	(u)	(u)	127.0	131.1 (15/6)	89.7 (29/1)
GERMANY						
FAZ Aktien (31/12/58)	473.23	475.72	476.96	470.05	476.96 (22/6)	396.40 (29/1)
Commerzbank (1/12/53)	1430.8	1438.4	1442.2	1422.3	1457.5 (18/3)	1207.9 (29/1)
HONG KONG						
Hang Seng Bank (31/7/64)	2707.56	2712.24	2703.74	2683.65	2719.06 (20/6)	2223.56 (8/2)
ITALY						
Banca Com. Ital. (1972)	511.06	501.56	503.90	501.56	545.07 (18/3)	423.91 (9/2)
JAPAN**						
Nikkei (16/5/49)	27750.79	27732.80	27860.78	27925.57	28342.46 (17/6)	21217.04 (4/1)
Tokyo SE New (4/1/68)	2172.88	2178.64	2185.54	2189.87	2219.98 (15/6)	1690.44 (4/1)
NETHERLANDS						
ANP-CBS General (1970)	263.3	262.8	260.7	256.6	263.3 (24/6)	205.7 (4/1)
ANP-CBS Industrial (1970)	219.0	218.8	218.2	214.4	229.0 (24/6)	157.9 (11/1)
NORWAY						
Oslo SE (4/1/83)	409.63	410.83	410.13	405.12	412.04 (11/4)	327.78 (28/1)
SINGAPORE						
Straits Times Ind. (30/12/66)	1082.69	1083.44	1071.99	1058.07	1083.44 (23/6)	833.60 (4/1)
SOUTH AFRICA						
JSE Gold (28/9/78)	1242.0‡	1250.0	1251.0	1243.0	1361.0 (6/6)	1154.0 (4/5)
JSE Industrial (28/9/78)	1627.0‡	1626.0	1622.0	1621.0	1658.0 (25/5)	1387.0 (12/2)
SPAIN						
Madrid SE (30/12/85)	297.17	297.45	296.22	296.22	301.63 (15/6)	225.50 (4/1)
SWEDEN						
Jacobson & P. (31/12/56)	(c)	3006.9	2993.3	2973.3	3020.4 (16/6)	2148.5 (4/1)
SWITZERLAND						
Swiss Bank Ind. (31/12/58)	547.0	546.9	543.0	537.8	547.0 (24/6)	466.6 (13/1)
WORLD						
M.S. Capital Intl. (1/1/70)	(u)	456.4	458.1	459.6	465.2 (15/6)	431.0 (21/1)

**Saturday June 25: Japan Nikkei 27556.21 and TSE 2162.67
‡ Subject to official recalculation

Base values of all indices are 100 except Brussels SE – 1,000 JSE Gold – 255.7 JSE Industrials – 264.5 and Australia, All Ordinary and Mining – 500; (c) Closed. (u) Unavailable.

CANADA

TORONTO
2pm Prices June 24

Quotations in cents unless marked $.

1– No voting rights or restricted voting rights.

INDICES

NEW YORK

DOW JONES

	Jun 24	Jun 23	Jun 22	Jun 21	1988 High	1988 Low	Since compilation High	Since compilation Low
♦Industrials	2142.96	2148.29	2152.2	2109.17	2152.2 (22/6)	1879.14 (20/1)	2722.42 (25/8/87)	41.22 (2/7/32)
Home Bonds	88.85	88.74	88.59	88.56	91.25 (3/3)	86.12 (4/1)	–	–
Transport	898.89	890.68	882.77	868.13	904.12 (23/3)	737.57 (21/1)	1101.16 (14/8/87)	12.32 (8/7/32)
Utilities	181.66	181.90	183.68	182.14	190.02 (29/1)	167.26 (20/4)	227.83 (22/1/87)	10.50 (8/4/32)

♦Day's High 2165.36 (2163.94) Low 2133.53 (2131.58)

STANDARD AND POOR'S	Jun 24	Jun 23	Jun 22	Jun 21	1988 High	1988 Low	Since compilation High	Since compilation Low
Composite‡	273.78	274.82	275.66	271.67	275.66 (22/6)	242.63 (20/1)	336.77 (25/8/87)	4.40 (1/6/32)
Industrials	316.22	317.58	318.54	313.91	318.54 (22/6)	277.86 (20/1)	393.17 (25/8/87)	3.62 (21/6/32)
Financials	24.87	24.85	24.88	24.51	24.88 (22/6)	21.51 (8/1)	32.43 (25/8/87)	8.64 (1/10/74)
NYSE Composite	154.56	155.03	155.35	153.29	155.35 (22/6)	136.72 (20/1)	187.99 (25/8/87)	4.46 (25/4/42)
Amex Mkt. Value	308.49	308.82	308.59	306.88	309.33 (10/6)	262.76 (12/1)	365.01 (13/8/87)	29.31 (9/12/72)
NASDAQ OTC Comp	391.62	391.03	390.53	387.75	391.62 (24/6)	331.97 (12/1)	455.28 (26/8/87)	54.87 (31/10/72)

	Jun 17	Jun 10	Jun 3	year ago (approx.)
Dow Industrial Div. Yield	3.55	3.54	3.58	2.83
	Jun 22	**Jun 15**	**Jun 8**	**year ago (approx.)**
S & P Industrial div. yield	3.03	3.06	3.08	2.52
S & P P/E ratio	14.42	14.37	14.21	23.17

TRADING ACTIVITY † Volume

Millions	Jun 24	Jun 23	Jun 22
New York	179.880	185.776	219.414
Amex	12.910	12.215	15.160
OTC	138.467	164.034	173.948

NEW YORK	Jun 24	Jun 23	Jun 22
Issues Traded	1,942	1,974	1,962
Rises	666	686	1,144
Falls	765	802	396
Unchanged	511	486	422
New Highs	23	38	54
New Lows	10	10	5

CANADA

TORONTO	Jun 24	Jun 23	Jun 22	Jun 21	1988 High	1988 Low
Metals & Minerals	3163.8	3167.1	3167.8	3092.6	3167.8 (22/6)	2238.7 (8/2)
Composite	3450.0	3440.0	3443.3	3416.3	3450.0 (24/6)	2977.9 (8/2)
MONTREAL Portfolio	1707.58	1707.58	1711.61	1692.39	1711.61 (22/5)	1305.06 (27/1)

NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Closing price	Change on day
Manfc Hanover	2,332,700	31	+ 3/4
Mid Sth Util	9,278,900	13 1/4	+ 2 1/2
Am T & T xd	5,221,000	26 1/4	– 1/2
Nova Corp	3,569,400	11 3/8	+ 5/8
USF&G	3,531,500	31 1/4	– 1/2
Roch Gas	3,308,400	18	
Commonw'th Ed xd	2,888,500	27 1/2	– 1 1/2
Payless	2,680,200	25 5/8	+ 2 5/8
Fort Hwd Paper	2,280,400	50	+ 2 1/2
Putnam Gov	1,687,500	10	

Base values of all indices are 100 except NYSE All Common – 50; Standard and Poor's – 10; and Toronto Composite and Metals – 1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds. ‡ 400 Industrials plus 40 utilities, 40 Financials and 20 transports. (c) Closed. (u) Unavailable.

OVER-THE-COUNTER

Nasdaq national market. 2pm Prices June 24

Stock Div. Sales 100s High Low Last Chng

Continued from page 33

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Closing Prices June 24

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

12 Month High	12 Month Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
		– A – A – A –								
26	14	AAR s	.36	1.4	21	181	20	25¼	26	+¼
12⅛	8¼	ACMIn	n1.19e	10.		229	11⅜	11½	11½	−⅛
12⅛	19¼	ACMSc	n1.26	11.		x420	11⅜	11¼	11¼	−¼
19⅜	9¼	ACMSp n				158	9⅞	6¼	9¾	
27¾	19½	AGS			21	585	27¼	23½	20⅞	−⅛
7⅞	2⅝	AMCA				32	4⅛	4⅛	4⅛	+⅛
6⅝	3¼	AM Intl				3711	4⅛	3⅞	4	−⅛
29⅜	17	AM IM pf	2	11.		13	19⅛	16	19	+¼
35½	26⅞	AMR			12	4279	49⅞	49⅛	49⅜	−¼
27¼	25	ANR pf	2.67	10		480	25⅜	25⅛	25¼	+⅛
24¼	10	ANR pf	2.12	9.0		302	23⅜	23½	23½	−⅛
11½	5¼	ARX			11	40	8½	9⅜	8⅝	−⅛
72⅞	46⅛	ASA	2	7.0		550	43½	43	43⅛	−⅝
22⅛	9⅛	AVX			13	458	18¼	18	18	−⅝
35⅜	40	AbtLab	1.20	2.7	15	6154	45¼	44½	44½	−⅛
26	15⅜	Abitibi g	1			77	19⅜	18¾	18⅞	−½
16½	8½	AcmeC	.40	3.6		82	11⅜	11⅛	11¼	−¼
10½	6⅝	AcmeE	.32b	4.7	21	1	6⅞	6⅞	6⅞	−⅛
20	14⅛	AdaEx	3.05e	19.		120	16⅛	16	16	−⅛
19¼	6⅞	AdamMl	.24	1.5	12	8	15⅝	15½	15¼	−¼
24⅞	7¼	AMD				4990	16⅜	16	16¼	−⅛
56⅛	29¼	AMD pf	3	7.2		1	41¼	41⅛	41¼	−¼
11⅞	4⅜	Adobe			12	46	8	7⅞	7⅞	
30¼	16⅛	Adob pf	1.84	10.		16	18¼	18⅛	18¼	
21⅜	17½	Adob pf	2.40	11.		12	01⅛	21⅛	21⅜	−⅛
13⅛	3⅞	Advest	.12	1.7	9	272	8⅞	8¼	8⅞	−½
34¼	35½	AetnLf	2.10	6.1	8	1939	48	45⅜	45½	−⅛
63½	41	AflPub	.40b	.7	40	1021	35⅛	57⅞	57⅞	−¼
23¼	13	Ahmans	.80	8.4	11	2460	18¼	18⅜	18⅜	−¼
4⅝	1¼	Aileen				7	2⅛	2⅛	3⅛	
83⅞	29	AirPrd	1.20	2.3	15	1542	52¼	51½	51¼	−⅛
33⅛	17⅛	AirbFrt	.60	3.2	23	432	19⅛	18¼	10	−½
18½	6⅜	Airgas			17	108	13⅞	13½	13¼	−½
29	13½	Airlease	2.30	12.	10	x30	19	18⅞	18⅞	−⅛
27⅛	25½	AlaP pf	2.09e	8.2		59	25½	d25¼	25½	
9⅞	7¼	AlaP dpf	.87	8.8		15	9⅛	0¼	9⅛	−⅛
98½	91½	AlaP pf	9	9.8		z1000	92	92	92	−1½
119	103½	AlaP pf	11	10.		z80	106¼	120½	105½	−½
88½	77	AlaP pf	8.28	9.9		z270	85	84	84	
24	12⅛	AlskAir	.16	.8	17	401	18⅞	18⅛	18⅞	
39	14¼	Alberto	.30	.9	21	20	28	35	25¼	−⅛
60¼	12⅞	AlbCulA	.35	1.1	16	4	23⅛	26⅛	26⅛	−¼
34	20¼	Albtsn s	.56	1.7	17	1444	34	33¼	33¼	
37⅞	18	Alcan s	.72	2.2	10	3237	33½	32¼	32¼	−⅛
30	15¼	AlcoStd	.68	2.7	12	323	25	24⅝	23	
28¼	15⅞	AlexAlx	1	4.3	13	265	23¼	22⅞	23	−¼
60	24¼	Alexdr				2	35⅜	50¼	50⅜	
92½	61⅜	AllegCp			6	43	10⅜	70	26	−½
16	2¼	vjAlgInt				365	3⅞	2⅛	3⅞	−⅛
61	17	vjAlgI pfC				11	24	64	24	−¼
54	15⅛	AlgLud	.48	1.5	13	182	32⅞	32⅜	32⅜	−⅛
41½	31⅜	AlgPw	3	7.8	9	324	38⅝	28¼	38⅞	−¼
17⅝	5½	AllenG				379	10⅜	10⅛	19½	
22	9¼	Allen pf	1.75	13.		5	14	13⅛	14	+⅛
11½	10	AlnCap n				183	10⅞	10⅝	10⅜	−¼
31⅞	12⅛	AlldPd			40	31	20¼	20	26	
46½	29	AldSgnl	1.80	5.2	11	1680	34⅜	34⅜	34⅝	−½
3	⅞	vjAllisC				94	1⅜	1	1	
29½	3⅜	AlisC pf				14	4	3¼	3⅞	−⅛
10⅜	8⅞	AlstMu	n.76	7.7		347	10⅛	10	10⅛	+⅛
19¼	9¼	AlsMI n				108	0⅞	0¼	0⅞	
34⅜	23	ALLTEL	1.52	4.5	11	261	34⅛	33⅞	34	−¼

Continued on Page 33

هكذا من الأصل

NYSE COMPOSITE PRICES

Continued from previous Page

AMEX COMPOSITE PRICES

Closing Prices June 24

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OVER-THE-COUNTER

Nasdaq national market. Closing Prices June 24

Continued on Page 31

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES

Looks like an uncertain week for the US dollar

BY JONAS CROSLAND

Where is the dollar going ? The spectacular performance of the U.S. currency in foreign exchange markets on Friday, and especially in late trading in New York, will be the primary consideration of traders when the London market opens this morning. In reality, the market is hoping for some "overnight" guidance from the Far East, particularly from Tokyo, but the weekend mood has been bullish.

Book squaring before the weekend bought a little time, but the market needs a view today, and the instinct is to move the U.S. unit higher. Sterling, on the sidelines for much of last week, will have its own focus, with the current account figures for May due by lunchtime. A sharp deterioration over April is widely expected to signal a further rise in bank base rates with the UK authorities hoping that another rise can be accommodated without pushing the exchange rate too high. A stronger dollar would undoubtably help here.

The very success of the Plaza accord in reducing the value of the dollar, and the follow up at Louvre last year, which called for a more stable approach, now begs the question, what happens now?

Last week's Toronto summit could be construed as merely advocating more of the same - that is, global stability in currency markets and a gradual eradication of trade imbalances. However the market's perception - which so far has been right - that G7 central banks are not opposed to a rise in the dollar's value, may presage a testing time for transatlantic relationships over the coming months.

Proximity of the US Presidential election in November may now, however indirectly, colour (or at least influence marginally) the thoughts of the US Federal Reserve Bank. There is no denying that the US trade imbalance has shown a long overdue contraction in the past couple of months, and this could form some basis for an argument that the dollar might be allowed to appreciate somewhat. This could have a beneficial influence on the rate of inflation and a decrease in import costs. But there would be a cost, and most analysts argue that such an exchange policy would be simply building up the problem for the next occupant of the White House. For all that, domestic political issues cannot be discounted five months before a presidential election.

The other side of the coin points towards a different calendar of unpalatable implications for the G7 partners of the US.

The West German Bundesbank has already shown its dislike for the prospect of importing inflation through a weak D-Mark, and West German money supply is already growing outside it official target range.

The net effect on the dollar has been to increase its attraction to overseas investors. The latter will be keen to keep pushing the dollar in search of both a healthy return and a desire to establish the extent to which central banks (more specifically the US Federal Reserve) will allow the dollar to rise.

Its break through key resistance levels at DM1.80 and Y130 last week failed to bring the authorities into the market, and this gave the dollar an added boost. While most traders see little reason at the moment why the dollar should continue to rise, activity towards the end of this week may start to slacken, as the US prepares for next Monday's July 4 celebrations.

£ IN NEW YORK

[illegible]

STERLING INDEX

[illegible]

CURRENCY RATES

[illegible]

CURRENCY MOVEMENTS

[illegible]

OTHER CURRENCIES

[illegible]

EMS EUROPEAN CURRENCY UNIT RATES

[illegible]

POUND SPOT- FORWARD AGAINST THE POUND

[illegible]

DOLLAR SPOT- FORWARD AGAINST THE DOLLAR

[illegible]

EURO-CURRENCY INTEREST RATES

[illegible]

EXCHANGE CROSS RATES

F Fr.	0.948	1.635	2.974	213.6	10.	2.463	3.349	2192	1.965	61.30
S Fr.	0.385	0.664	1.208	86.72	4.061	1	1.360	890.3	0.798	25.10
H Fl.	0.283	0.488	0.888	63.77	2.986	0.735	1	654.7	0.587	18.45
Lira	0.432	0.746	1.357	97.41	4.561	1.123	1.527	1000.	0.896	28.19
C $	0.482	0.832	1.514	108.7	5.089	1.253	1.704	1116	1	31.45
B Fr.	1.534	2.646	4.813	345.6	16.18	3.985	5.419	3548	3.179	100.

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100.

FORWARD RATES AGAINST STERLING

	Spot	1 mth	3 mths	6 mths	12 mths
US Dollar	1.7250	1.7233	1.7178	1.7094	1.6965
D-mark	3.1375	3.1253	3.0980	3.0577	2.9840
French Fr.	10.548	10.546	10.542	10.536	10.526
Swiss Fr.	2.5975	2.5855	2.5594	2.5200	2.4435
Yen	225.25	224.41	222.49	219.75	214.15

LONDON (LIFFE) / CHICAGO / PHILADELPHIA SE £/$ OPTIONS / LONDON SE £/$ OPTIONS / LIFFE OPTIONS AND FUTURES

[illegible]

POUND-$ (FOREIGN EXCHANGE)

Spot	1-mth.	3-mth.	6-mth.	12-mth.
1.7250	1.7233	1.7178	1.7094	1.6965

IMM STERLING $s per £

	Close	High	Low	Prev.
Sep	1.7182	1.7394	1.7130	1.7526
Dec	1.7092	1.7310	1.7070	1.7450
Mar	1.7024	1.7124	1.7060	1.7394

LONDON RECENT ISSUES

EQUITIES

[illegible]

FIXED INTEREST STOCKS

[illegible]

"RIGHTS" OFFERS

[illegible]

EUROPEAN OPTIONS EXCHANGE

[illegible]

A=Ask B=Bid C=Call P=Put

BASE LENDING RATES

[illegible]

Mount Bnkg Corp. 9 Mortgage 9.125% - 9.5%

MONEY MARKETS

UK base rates look set to rise again

THE LONDON money markets are expected to open this morning reflecting a further rise in UK bank base rates - in anticipation of the current account figures for May due at lunchtime. The market consensus is that the figure for last month will show a deterioration from the £525m deficit in April and be enough to bring about the fourth rise in base rate since May 18.

As always, timing will be of the essence. Many market analysts over the weekend believed that the rate will be increased immediately: others consider a rise inevitable, but are less sure of the timing.

UK clearing bank base lending rate 9 per cent from June 22

There is mounting evidence that the Treasury is focusing so sharply on rising inflation and economic growth, that sterling's performance may assume a secondary importance.

If today's figures are poor, and the pound is sold, then rates will probably be increased sooner rather than later. On the other hand, if the pound were to rise, then that itself is a form of monetary tightening. Base rates were last at 9 p.c. in March and since then sterling has appreciated against the D-Mark by over 4 p.c., underlying the market view that the authorities have adopted a tighter monetary stance.

Either way, investors will be looking to the Treasury to take a firmer grip at the helm, and not be seen as massaging base rates merely to keep in line with movements already discounted by the market.

If it is time for the tail to stop wagging the dog, then what better way than by pushing up base rates a full point to 10 p.c. This would almost certainly be followed by a rise in mortgage rates, which would help to soak up some of the budget tax handouts currently reaching pay packets.

FT LONDON INTERBANK FIXING

(11.00 a.m. June 24) 3 months US dollars		6 months US Dollars	
bid 7 1/4	offer 7 1/4	bid 7 5/8	offer 7 7/8

The fixing rates are the arithmetic means rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted by the market to five reference banks at 11.00 a.m. each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque National de Paris and Morgan Guaranty Trust.

BANK OF ENGLAND TREASURY BILL TENDER

[illegible]

WEEKLY CHANGE IN WORLD INTEREST RATES

[illegible]

MONEY RATES

NEW YORK (4pm)

		Treasury Bills and Bonds			
Prime rate	9	One month	5.60	Three year	8.17
Broker loan rate	8 1/2	Two month	6.25	Four year	8.35
Fed.funds	7 7/8-8	Three month	6.71	Five year	8.46
Fed.funds at intervention	7 3/4	Six month	7.08	Seven year	8.68
		One year	7.45	10-year	8.83
		Two year	8.02	30-year	8.86

June 24	Overnight	One Month	Two Months	Three Months	Six Months	Lombard Intervention
Frankfurt	3.80-3.90	3.80-3.90	3.90-4.05	4.00-4.15	4.10-4.25	4.50
Paris	7 1/4-7 1/2	7-7 1/4	7 1/8-7 3/8	7 1/8-7 3/8	7 3/8-7 5/8	7.00
[illegible]						

LONDON MONEY RATES

[illegible]

FT – ACTUARIES WORLD INDICES

Jointly compiled by the Financial Times, Goldman, Sachs & Co., and Wood Mackenzie & Co. Ltd., in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS	FRIDAY JUNE 24 1988					THURSDAY JUNE 23 1988			DOLLAR INDEX		
Figures in parentheses show number of stocks per grouping	US Dollar Index	Day's Change %	Pound Sterling Index	Local Currency Index	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Local Currency Index	1988 High	1988 Low	Year ago (approx)
Australia (88)	146.83	-0.6	126.20	118.41	3.78	147.65	124.58	120.20	150.35	91.16	132.86
Austria (16)	84.25	-1.2	72.41	79.07	2.60	85.31	71.99	79.15	98.18	84.25	85.94
Belgium (63)	121.05	-1.3	104.04	113.29	4.44	122.62	103.46	113.54	139.89	99.14	121.39
Canada (125)	128.91	+0.5	110.79	112.25	3.00	128.22	108.20	111.79	128.91	107.06	127.86
Denmark (39)	128.89	-0.8	110.77	120.12	2.42	129.95	109.65	119.97	132.72	111.42	118.29
Finland (25)	133.38	-0.5	114.64	119.18	1.76	134.00	113.07	119.18	139.53	106.78	–
France (126)	96.18	+0.1	82.67	92.26	3.52	96.12	81.11	90.70	99.62	72.77	106.33
West Germany (99)	74.55	-2.3	64.07	70.50	2.63	76.30	64.38	70.85	80.79	67.78	97.21
Hong Kong (46)	109.20	+0.0	93.85	109.36	4.18	109.17	92.11	109.32	109.20	84.90	124.41
Ireland (18)	137.39	-2.1	118.08	130.18	3.64	140.31	118.40	131.28	141.54	104.60	130.44
Italy (102)	71.98	-0.5	61.87	72.09	2.79	72.35	61.05	71.59	81.74	62.99	99.39
Japan (456)	163.85	-1.8	140.83	135.27	0.53	166.94	140.87	135.76	177.27	133.61	147.21
Malaysia (36)	152.36	+0.2	130.95	152.10	2.39	152.02	128.28	151.52	152.36	107.83	171.30
Mexico (14)	167.70	-0.9	144.14	418.98	1.19	169.25	142.82	422.84	180.07	90.07	250.85
Netherland (38)	104.75	-1.2	90.03	97.91	4.72	106.07	89.50	97.40	110.66	95.23	121.88
New Zealand (21)	81.45	-1.0	70.01	60.98	5.86	82.30	69.45	61.76	84.05	64.42	98.47
Norway (25)	124.85	-0.7	107.31	110.32	2.73	125.72	106.08	110.19	132.23	98.55	137.53
Singapore (26)	123.28	+0.8	105.96	115.67	2.17	122.29	103.19	114.63	123.33	97.99	145.88
South Africa (60)	124.13	-1.5	106.68	85.45	5.14	126.05	106.37	86.11	139.07	118.16	157.12
Spain (42)	155.09	-1.4	133.29	140.23	3.09	157.26	132.70	140.46	164.47	130.73	122.96
Sweden (35)	119.36	-0.7	102.58	109.86	2.60	120.18	101.41	109.86	125.50	96.92	113.74
Switzerland (55)	79.92	-2.2	68.69	74.59	2.29	81.72	68.95	74.88	86.75	75.60	99.28
United Kingdom (327)	134.15	-2.2	115.30	115.30	4.28	137.16	115.73	115.73	141.18	123.09	149.82
USA (577)	111.67	-0.3	95.97	111.67	3.51	112.01	94.51	112.01	112.27	99.19	125.71
Europe (1010)	106.96	-1.7	91.93	96.90	3.70	108.81	91.81	96.93	110.82	97.01	122.17
Pacific Basin (673)	160.98	-1.8	138.36	133.38	0.73	163.86	138.27	133.90	172.26	130.81	145.75
Euro-Pacific (1683)	139.39	-1.7	119.80	118.81	1.65	141.86	119.70	119.14	147.53	120.36	136.36
North America (702)	112.59	-0.3	96.77	111.72	3.48	112.87	95.24	112.01	113.08	99.78	125.82
Europe Ex. UK (683)	90.07	-1.3	77.41	85.42	3.17	91.22	76.97	85.18	92.99	80.27	105.00
Pacific Ex. Japan (217)	126.38	-0.3	108.62	109.81	3.90	126.78	106.99	110.76	128.15	87.51	127.98
World Ex. US (1882)	138.91	-1.7	119.39	118.38	1.73	141.26	119.20	118.69	146.49	120.26	136.35
World Ex. UK (2132)	127.78	-1.1	109.82	116.09	2.11	129.22	109.04	116.40	131.77	111.77	130.45
World Ex. So. Af. (2399)	128.35	-1.2	110.31	116.22	2.30	129.93	109.64	116.54	132.39	113.26	132.01
World Ex. Japan (2003)	111.31	-0.8	95.67	106.34	3.59	112.17	94.65	106.57	112.43	100.00	125.03
The World Index (2459)	128.33	-1.2	110.29	116.01	2.31	129.91	109.62	116.33	132.38	113.37	132.17

Base values: Dec 31, 1986 = 100; Finland: Dec 31, 1987 = 115.037 (US $ Index), 90.791 (Pound Sterling) and 94.94 (Local).

Finnish and Swedish markets closed June 24.
CONSTITUENT CHANGES : Deletions ; Provost and Silminco (both France), Flakt (Sweden) and Lucky Stores (U.S.A).

ROCKFORT

A copy of this document, which comprises listing particulars relating to Rockfort Group PLC in accordance with the listing rules made under the Financial Services Act 1986, has been delivered to the Registrar of Companies in England and Wales for registration as required by section 149 of that Act.

Application has been made to the Council of The Stock Exchange for the ordinary share capital of Rockfort Group PLC, issued and now being issued, to be admitted to the Official List.

The Directors of Rockfort Group PLC, whose names appear herein, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

The application list for the Ordinary Shares now being offered for sale or subscription will open at 10.00 a.m. on Monday, 4th July 1988 and will close as soon thereafter as Kleinwort Benson Limited may determine.

The procedure for application and an application form are set out at the end of this document.

ROCKFORT GROUP PLC

Offer for Sale by Kleinwort Benson Limited

of 17,642,330 Ordinary Shares of 20p each at 140p per share, payable in full on application

Share Capital

following the Offer for Sale

Authorised		Issued and fully paid
£11,800,000	in Ordinary Shares of 20p each	£8,600,000

The Ordinary Shares now being offered for sale or subscription rank in full for all dividends or other distributions hereafter declared, paid or made on the ordinary share capital of the Company.

Indebtedness

At the close of business on 3rd June 1988, the Company and its subsidiaries had outstanding indebtedness of £19,352,000, comprising secured bank overdrafts of £1,003,000, secured loans of £18,341,000 and hire purchase and finance leasing liabilities of £8,000. At the close of business on 3rd June 1988, the Company and its subsidiaries had cash and bank balances of £1,933,000. Between 3rd June 1988 and 24th June 1988 the Company and its subsidiaries drew down further secured loans amounting to £3,709,000.

Save as aforesaid and apart from intra-Group liabilities, neither the Company nor any of its subsidiaries had at the close of business on that date any loan capital, outstanding or created but unissued, term loans, mortgages, charges or other borrowings or indebtedness in the nature of borrowing, including liabilities under acceptances (other than normal trade bills) or acceptance credits, hire purchase commitments, guarantees (other than rental and performance guarantees) or other material contingent liabilities.

Timetable

	1988
Completed application forms to be received by ..	10.00 a.m. on 4th July
Basis of allocation expected to be announced	5th July
Letters of acceptance expected to be sent out	8th July
Dealings expected to commence	11th July
Latest time for registration of renunciation expected to be	3.00 p.m. on 5th August
Share certificates expected to be sent out by	2nd September

Definitions

The following definitions apply throughout this document unless the context requires otherwise:

"Company"	Rockfort Group PLC
"Directors"	the directors of the Company
"Rockfort" or "Group"	the Company and its subsidiaries
"Rockfort Land"	Rockfort Land Limited
"Rockfort Homes"	Rockfort Homes Limited
"Admission"	admission of the Ordinary Shares to the Official List by the Council of The Stock Exchange
"Kleinwort Benson"	Kleinwort Benson Limited
"Offer" or "Offer for Sale"	the offer for sale or subscription described in this document
"Offer Price"	the amount to be paid for each of the Ordinary Shares now being offered for sale or subscription
"Ordinary Shares"	ordinary shares of 20p each in the capital of the Company

All measurements given in this document are approximate only and, unless otherwise stated, the areas given for all buildings are expressed in terms of net lettable floor area.

Key information

The following information should be read in conjunction with the full text of this document, from which it is derived.

Business

- Rockfort is a property development group active in the office, retail, industrial and residential sectors. Since disposing of its construction subsidiary in 1984, Rockfort has concentrated on its core activity of property development and has grown rapidly.
- Rockfort's developments are primarily located in central London and provincial towns in south-east England including, in particular, towns in the Thames Valley.
- Rockfort's development programme currently comprises eight office schemes totalling in excess of 176,000 sq. ft., three retail schemes totalling 90,000 sq. ft. and nine residential schemes which are expected to provide over 430 units. Rockfort is also actively pursuing opportunities for industrial development.
- Rockfort's office and retail developments accounted for approximately 85 per cent. of gross profit in 1987, with residential developments accounting for the remaining 15 per cent.

Key strengths

- Rockfort's management team has considerable expertise in identifying and assembling sites with development potential and in organising the development process.
- Rockfort's diversified commercial developments demonstrate that it has the versatility to meet market demands as they vary both geographically and between the office, retail and industrial sectors.
- Rockfort's combination of commercial and residential development expertise enables it to put forward competitive proposals which increase the profit potential of sites.
- Rockfort operates a system of strict financial controls and reporting procedures in order to ensure efficient development of its sites and to maximise profit.

Financial record and forecast

	Actual					*Forecast*
Year to 31st December	*1983*	*1984*	*1985*	*1986*	*1987*	*1988*
Profit before taxation (£000) ..	1,062	26	90	664	2,676	8,400
Earnings per Ordinary Share (p)	2.2	(0.1)	(0.1)	1.5	5.6	15.4

Offer statistics

Offer Price	140p
Ordinary Shares in issue following the Offer	43,000,000
Market capitalisation at the Offer Price	£60.2 million
Percentage of enlarged ordinary share capital now being offered	41.0 per cent.
Amount being raised (net of expenses)	
— by the Company	£18.7 million
— by existing shareholders	£4.6 million
Price/earnings multiple based on the Offer Price and on forecast earnings per Ordinary Share for the year ending 31st December 1988	9.1 times
Gross dividend yield based on the Offer Price and on a notional gross dividend of 5.2p per Ordinary Share for the year ending 31st December 1988	3.7 per cent.
Dividend cover based on a notional net dividend of 3.9p per Ordinary Share and forecast earnings per Ordinary Share for the year ending 31st December 1988	3.95 times
Estimate of pro forma net tangible assets per Ordinary Share following the Offer	60.0p

Note:
Further details relating to the financial record and forecast and the Offer statistics, including the bases and assumptions on which the Offer statistics are calculated, are set out in the sections headed "Financial record", "Profit forecast", "Dividends" and "Estimate of pro forma net tangible assets" in Part I below. The results for the five years ended 31st December 1987 are extracted from the Accountants' report set out in Part III below.

Directors and advisers

Directors	Roger Guy Smee	Chairman and Managing Director
	Michael Gym Toh	Group Finance Director
	Colin Michael Brooks	Managing Director, Rockfort Homes
	Robert Martin Mays-Smith	Non-executive Director
	all of Hurst Grove, Hurst, Reading RG10 0SQ	
Consultant	Andrew John Mack Huntley 55 Old Broad Street, London EC2M 1LP	
Secretary and Registered Office	Michael Gym Toh, FCA Hurst Grove, Hurst, Reading RG10 0SQ	
Financial Advisers	Kleinwort Benson Limited 20 Fenchurch Street, London EC3P 3DB	
Stockbrokers	Phillips & Drew Securities Limited 120 Moorgate, London EC2M 6XP	
Auditors and Reporting Accountants	Coopers & Lybrand, *Chartered Accountants* Bridewell House, 6 Greyfriars Road, Reading RG1 1JG and Plumtree Court, London EC4A 4HT	
Solicitors to the Company	Clifford Chance Royex House, Aldermanbury Square, London EC2V 7LD	
Solicitors to the Offer	Freshfields Grindall House, 25 Newgate Street, London EC1A 7LH	
Reporting Property Valuers	Jones Lang Wootton 22 Hanover Square, London W1A 2BN	
Receiving Bankers	National Westminster Bank PLC New Issues Department, P O Box 79, 2 Princes Street, London EC2P 2BD	
Registrars and Paying Agents	National Westminster Bank PLC Registrar's Department, P O Box 82, Caxton House, Redcliffe Way, Bristol BS99 7NH	
Principal Bankers	Kleinwort Benson Limited 20 Fenchurch Street, London EC3P 3DB National Westminster Bank PLC Reading Business Centre, Abbey Gardens, 4 Abbey Street, Reading RG1 3BA	

ROCKFORT

PART I
History

Rockfort's origins date from 1976 when Rockfort Limited (now a subsidiary of the Company) was established by Roger Smee, the Company's chairman and managing director. In the early years of its operation, Rockfort Limited undertook commercial property development projects in the Reading area.

In 1980, development activities were extended to a number of towns in the Thames Valley and the first residential development was undertaken. At the same time, the business diversified into construction-related activities. However, substantial restructuring and strengthening of the management of Rockfort's construction subsidiary, which incurred a loss in 1983, proved to be necessary. Action to implement this increasingly took up a disproportionate amount of management time and began to hinder the growth of the main business. Rockfort therefore disposed of that subsidiary in May 1984, in order to concentrate on its core business of property development.

As the Group's development programme grew, it became clear that additional financial resources would be needed to sustain its growth. In December 1985, Kleinwort Benson Investment Trust Limited subscribed for and purchased new ordinary shares in the Company, acquiring in total a 24.99 per cent. equity interest and, in addition, Kleinwort Benson made available development finance facilities.

Business

Rockfort is engaged in a broad range of property development. The Group develops both commercial property, principally for sale to institutional investors willing to finance the cost of development, and residential property. The Group has its head office at Hurst Grove near Reading and an office in the West End of London.

The Group's strength lies in the expertise of its management team in identifying and assembling sites with development potential and in organising the development process which includes:

- negotiating purchase terms;
- negotiating planning consents, which are normally a condition of purchase;
- securing development finance;
- the project management of construction, involving the appointment and close supervision of building contractors and professional teams including architects, quantity surveyors, structural engineers and services consultants; and
- arranging a marketing campaign to secure the sale or letting of developments.

Rockfort's development activities are primarily undertaken through its two principal subsidiaries: Rockfort Land, which undertakes office, retail and industrial developments, and Rockfort Homes, which undertakes residential developments.

Rockfort's developments are primarily located in central London and provincial towns in south-east England including, in particular, towns in the Thames Valley. Commercial developments to date include high quality office schemes of up to 51,250 sq. ft., retail developments ranging from single high street units to town centre shopping schemes, and industrial developments of high-tech buildings and warehousing. Residential developments have principally involved town centre regeneration but have also included green-field sites.

The Directors believe that Rockfort is able to derive substantial benefit from its combination of commercial and residential development expertise, which enables it to put forward competitive proposals to increase the profit potential of sites. The Group's ability to handle residential development effectively is important as planning consents granted for commercial development may require the inclusion of residential units. In town centre locations, the Group's ability to plan and develop mixed commercial and residential schemes can increase the value of a development. Occasionally, there is scope for the Group to substitute a more profitable mixed residential and commercial scheme for a less attractive commercial scheme as, for example, it has done recently on an 11 acre site at Rose Kiln Lane, Reading. In addition, the more consistent income stream from sales of units in residential developments complements the less regular income from commercial developments.

The diversity of the Group's completed commercial developments demonstrates that Rockfort has the versatility to meet market demands as they vary both geographically and between the office, retail and industrial sectors.

To date, Rockfort has retained two completed developments for investment purposes. Following the Offer, the Group will be in a position gradually to increase its investment portfolio.

Rockfort Land

Rockfort Land currently has a development programme of eleven projects. Roger Smee, Rockfort Land's managing director, has been primarily responsible for building up the programme to its present level. The management of Rockfort Land was expanded in December 1986 when Henry Lyons joined the Group. Approximately 85 per cent. of the Group's gross profit in 1987 arose from office and retail development.

Development strategy

Rockfort Land's strategy is to identify areas where increasing demand for a particular type of scheme is anticipated and to target its development programme accordingly. In planning its programme, Rockfort Land seeks to maintain flexibility to meet changing market demands, a strategy which has led to variations in the composition of its portfolio both geographically and between the office, retail and industrial sectors.

In the early 1980's, the Group was active in high-tech industrial and office developments in the Thames Valley, whereas in the mid-1980's the emphasis switched mainly to office development in that area and, more recently, in central London. The Directors believe that, as a result of the continuing growth of companies in provincial towns in south-east England, there is increasing demand for office development in that area together with corresponding interest from investing institutions and that, because of its past experience, Rockfort Land is well placed to take advantage of such demand. Rockfort Land is also expanding its retail development activity with the recent acquisition of sites in Banbury and York and is considering further site acquisitions for retail development.

Development opportunities

Development opportunities are either identified directly by Rockfort's management team or introduced to the Group by a wide range of interested third parties, including property owners, potential occupiers, surveyors and estate agents. The success of a development depends to a large degree on identifying the full potential of a site and the type of development in demand, together with the ability to achieve the appropriate planning consents. Rockfort Land has developed a particular expertise in dealing successfully with projects which are complex in planning terms.

Project management

Rockfort Land assumes responsibility for the management of its development projects. This commences with the appointment of the professional team for detailed design work, following which the development is allocated to one of Rockfort Land's in-house project managers who supervises all contractors, the professional design team and the progress of the project on site and monitors the costs involved. Rockfort's reputation depends upon the completion of a development to specification, within budget and on time.

Development finance and profit

Rockfort usually finances the acquisition of sites from its own resources. Development finance is then generally sought from institutional investors before major construction work is started, although finance may continue to be provided from the Group's own resources in the early stages of development or in instances where the cost of completing a project is modest. Development finance will normally comprise the sale of the site to an institution under arrangements, known as pre-funding, whereby all further funds for the completion of the project will be provided by the institution up to an agreed limit. Developments financed in this way are described in Schedule G, entitled "Managed contracts and joint ventures", in the Property valuers' report in Part II below.

Upon completion of a project which has been pre-funded, the institution retains the development and Rockfort Land's profit relates to the excess of the development's completed value (determined in accordance with the funding agreement) over its cost (including notional interest on the funds provided). Rockfort Land is also paid a project management fee during the course of the development.

Responsibility for letting the development will normally remain with Rockfort Land, which seeks to pre-let the building wholly or partly prior to the completion of construction. This has the effect of eliminating the most significant development risk, thereby establishing the likely profitability of the scheme at the earliest time. Rockfort Land does not, other than in exceptional circumstances, guarantee the letting of a development, but, to the extent that rents actually achieved fall short of the level agreed with the institution, or if there is a delay in securing a tenant, Rockfort Land's expected profit from the development may be eroded. Rockfort does not risk incurring losses, beyond forgoing its expected profit, in the event that a property is not let, or rents do not achieve the agreed level.

Higher returns may be achieved where funds for the completion of the development are provided from the Group's resources and the property is sold to an investor in a completed state; in contrast, pre-funding arrangements reduce both the financial risk to, and the capital outlay required from, the Group. However, under pre-funding arrangements, the Group retains the primary responsibility for project management of the development and for its completion to specification, within budget and on time; the risk of cost overruns is therefore borne by the Group rather than the institutional investor. The Group seeks to limit its financial risk resulting from cost overruns by negotiating fixed price construction contracts with its contractors, incorporating penalties for late completion. Rockfort also operates a system of strict financial controls and reporting procedures in order to ensure efficient development of its sites and to maximise profit.

Although Rockfort Land's policy is to secure development finance and progress a project to completion, it has sold a number of sites outright after obtaining planning consent but prior to the commencement of construction where the terms of the sale have been sufficiently attractive. The purchasers in these circumstances are normally potential owner-occupiers who wish to assume direct responsibility for the development.

The increased financial resources available to the Group following the Offer will enhance its ability to secure development opportunities and accordingly to increase the size of its development programme. The Group intends to continue its emphasis on pre-funding to limit the degree of financial risk, but the proceeds of the Offer will give Rockfort the flexibility to take decisions on the financing of projects independently of the availability of institutional funding, with a view to maximising profit.

Over the years, Rockfort has built up relationships with both potential tenants and institutional property investors. For recent major projects, finance has been obtained from such institutions as Norwich Union, Postel Pension Fund, Cadbury Schweppes Pension Trust, TSB Investment Trust, The Scottish Provident Institution and Electricity Supply Nominees. Tenants of some recent and current Rockfort office and industrial developments include Ultramar, Honeywell Control Systems, Coopers & Lybrand and Avco Trust. Tenants of recent retail developments include Laura Ashley, WH Smith and British Home Stores.

Completed developments

Since 1983, the Group has completed and sold 27 commercial developments totalling 470,000 sq. ft. Of these, nine were office schemes (totalling 100,000 sq. ft.), eight were retail schemes (totalling 64,000 sq. ft.) and ten were industrial buildings incorporating offices (totalling 308,000 sq. ft.). In addition, four development sites were sold, prior to the commencement of construction, with the benefit of planning permission for a total of 37,000 sq. ft. of offices, 72,000 sq. ft. of retail space and 62,000 sq. ft. of industrial buildings incorporating offices.

Completed developments with a capital value on completion or sale in excess of £1 million comprise:

	Date of completion	Size (sq. ft.)	Capital value (£ millions)	Principal tenants	Sold to
Offices					
Highlands House, Reading	October 1982	9,050	1.53	Norcros	Norcros Pension Fund
Avco House, Castle Street, Reading	May 1983	24,300	5.28	Avco Trust	Cadbury Schweppes Pension Trust
39-41 Northbrook Street, Newbury	June 1984	4,250	1.55	Brading & Barber, Chartered Accountants	Termac Pension Trust
62-66 London Street, Reading	April 1985	9,300	1.96	Covell Matthews Wheatley, Architects	Merchant Navy Officers Pension Fund
36-38 Market Street, Maidenhead	December 1985	6,700	1.96	Crowntek International	Postfund Custodian Trustee
141 Moorgate, London EC4	June 1987	11,800	2.54	Ultramar	The Scottish Provident Institution
56-59 Minster Street, Reading	August 1987	16,900	4.62	Sun Life Assurance Company of Canada	Britannic Assurance
50-64 Caversham Road, Reading	June 1988	16,120	4.33	Premier Portfolio	Postfund Custodian Trustee
Kern House, Lincoln's Inn Fields, London WC2	Note (i)	37,000	10.00	—	Imperial Cancer Research Fund
Retail					
105-106 Northbrook Street, Newbury	July 1984	2,500	1.15	B A T Industries	I T B Pension Fund
43-44 High Street, King's Lynn	October 1984	4,000	1.87	The Burton Group	United Friendly Insurance
30 East Street, Chichester	January 1986	3,900	1.68	Mothercare	Mobil Trustee Company
121-123 Bancroft, Hitchin	June 1987	5,200	3.55	Laura Ashley, W H Smith	Standard Life Investment Funds
St. Benedict's Square, Lincoln	May 1988 Note (ii)	35,000	6.08	British Home Stores	Boots Pensions
Thorn Walk, Reading	Note (i)	66,000	4.10	—	Wickes Developments
Industrial					
Lovelace Road, Bracknell, Phases I and II	October 1983	84,600	4.66	Honeywell Control Systems	Electricity Supply Nominees
50-60 Milford Road, Reading	August 1984	45,250	1.71	W H Smith, MFI	Cadbury Schweppes Pension Trust
Orchard Fields, Maylands Avenue, Hemel Hempstead	October 1985	80,000	6.47	ITL Information Technology	Cadbury Schweppes Pension Trust
687-689 Mitcham Road, Croydon Phases I and II	January 1986	39,500	1.95	Cellogias, BTR Property Holdings	Sun Life Assurance Company of Canada
Lovelace Road, Bracknell Phase III	December 1986	22,000	2.14	Honeywell Control Systems	Electricity Supply Nominees
Western Road, Bracknell	February 1987	43,000	3.10	VDU Installations	Strathclyde Regional Council

Notes:
(i) Development sold outright prior to commencement of construction.
(ii) One unit only remains to be let.

Current developments

Rockfort is currently undertaking development work on eight sites to provide a total of 232,000 sq. ft. of office and retail space.

Offices

42-50 Leman Street, London E1

Rockfort acquired this site in January 1988. Although the site already had the benefit of a planning consent for 23,300 sq. ft. of office space, Rockfort submitted a revised application to increase the size of the development to 26,500 sq. ft. by adding a floor. The application has been approved, subject to completion of a planning agreement. Demolition and site clearance commenced in April 1988 and construction is due to start in autumn 1988. At present, the development is being financed from Rockfort's own resources, but the Group is currently negotiating terms for development finance.

18-20 St Andrew Street, London EC4

Following exchange of contracts for the acquisition of this City site in September 1985, Rockfort obtained planning consent to provide 51,250 sq. ft. of office space. The scheme was sold in April 1986 to Norwich Union Fire Insurance Society with Rockfort Land retained as project managers. Construction work started in October 1986 and practical completion is due in August 1988. The building was pre-let to Coopers & Lybrand in April 1987.

9-27 Greyfriars Road, Reading

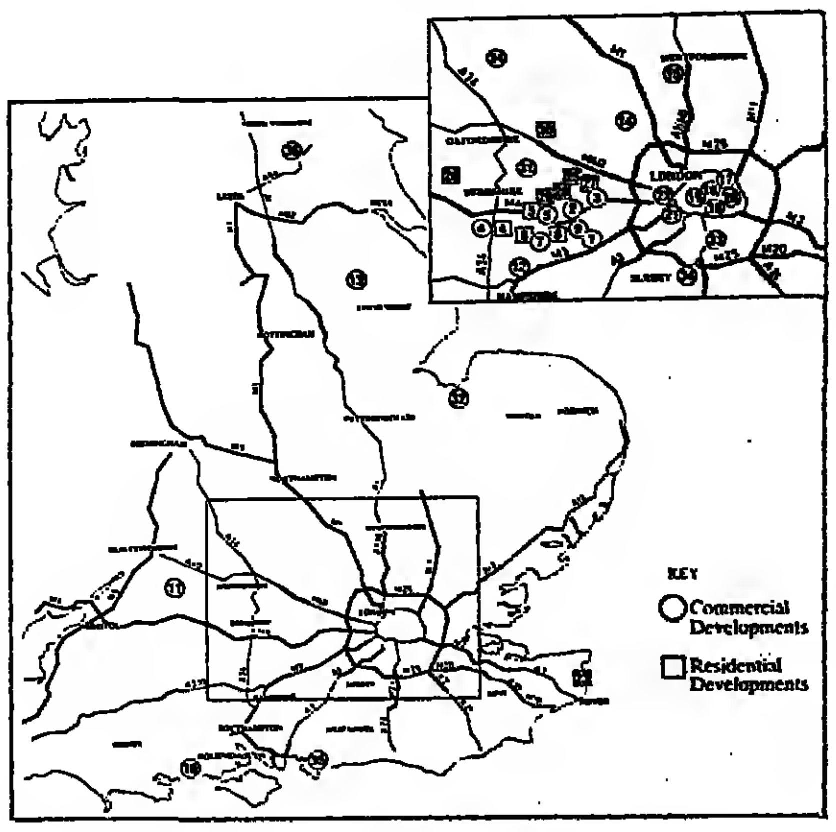
This site was acquired by Rockfort in June 1987. Rockfort subsequently obtained detailed planning consent to provide a four-storey 37,500 sq. ft. office building with on-site car parking. The development also includes, as part of the planning consent, the construction of residential accommodation which is being undertaken by Rockfort Homes as described below. Practical completion is due in November 1988. The offices have been pre-let to Coopers & Lybrand and pre-sold to a British Telecom Pension Fund company.

135-137 Aldersgate Street, London EC1

This scheme involves the construction of a new building to provide 16,500 sq. ft. of office space on five floors directly over Barbican underground station, together with two small retail units. On completion of the development, Rockfort will be entitled to a 150 year ground lease from London Regional Transport. Construction commenced in November 1987 and practical completion is scheduled for April 1989. Rockfort already has experience in dealing with the complex technical aspects associated with carrying out office development over an underground station following its successful completion of a project at Moorgate in June 1987. The project has been pre-funded with TSB Group Pension Trust Limited.

Castlefield Court, 48-62 Church Street, Reigate

Rockfort is developing a former garage site and adjoining listed property, close to the High Street, to provide a courtyard development of four office buildings with a combined floor area of 10,600 sq. ft. The site was acquired in July 1987 and practical completion of the majority of the development is scheduled to take place by July 1988. The largest unit, of 5,000 sq. ft., has been pre-let to Charles Church Developments plc. Rockfort has pre-sold the development to Colonial Mutual Life Assurance Society Limited.



KEY
Commercial Developments
Residential Developments

LOCATION OF DEVELOPMENTS

Berkshire
1. Bracknell
2. Hurst
3. Maidenhead
4. Newbury
5. Reading
6. Risley
7. Spencer's Wood
8. Swallowfield
9. Wokingham

Dorset
10. Parkstone

Gloucestershire
11. Cirencester

Hampshire
12. Basingstoke

Lincolnshire
13. Lincoln

Hertfordshire
14. Hemel Hempstead
15. Hitchin

London
16. EC1
17. EC2
18. EC4
19. WC2
20. E1
21. Acton
22. West Drayton

Kent
23. Deal

Oxfordshire
24. Banbury
25. Henley-on-Thames
26. Kingston Bagpuize
27. Marlow
28. Shiplake
29. Sonning Common
30. Thame
31. Wallingford

Norfolk
32. King's Lynn

Surrey
33. Croydon
34. Reigate

West Sussex
35. Chichester

North Yorkshire
36. York

Retail

22-24 Stonegate and the Stonegate Arcade, York

Rockfort acquired this existing shopping arcade and three listed units with offices above in May 1988. It intends to refurbish the property as a speciality shopping centre of 22 units totalling 17,500 sq. ft. including offices. Rockfort currently intends to finance the development from its own resources.

Rose Kiln Lane, Reading

This 11 acre site was originally planned to be a high-tech development. However, Rockfort considered that the development would have greater value as a mixed residential and retail scheme. A resolution to grant planning consent for residential use of 5.5 acres of the site has been passed, subject to completion of a planning agreement, and construction is currently being undertaken by Rockfort Homes. Rockfort Land has agreed to acquire the remainder of the site, conditional upon receipt of planning consent. Rockfort made a planning application for 70,000 sq. ft. of non-food retail warehousing and appealed to the Department of the Environment against a planning refusal. The Department has indicated that a consent notice will be issued, subject to Rockfort entering into an agreement relating to access from Rose Kiln Lane and certain other matters. Conditionally upon receipt of formal planning consent, the site has been pre-sold to Norcros Developments Limited.

15½-16 High Street, Banbury

This site was acquired by Rockfort in March 1988. Work on site has commenced to refurbish the existing building to provide 2,600 sq. ft. of retail space in two units. Practical completion is scheduled for August 1988.

Future developments

Future developments are those in respect of which Rockfort has purchased or agreed to purchase a development site, but where development work on site has not yet commenced.

21-27 Tabernacle Street and 6 Epworth Street, London EC2

This property is to be redeveloped to provide 12,700 sq. ft. of offices, together with a public house behind an existing listed facade. Rockfort exchanged contracts for the acquisition of the site in June 1988, subject to vacant possession, under agreed terms for a ground lease. Construction is due to commence in September 1988. An offer of development finance has been received.

31-53 The Green, West Drayton

Rockfort has recently acquired this development site, and an application for planning consent for 20,700 sq. ft. of offices around a courtyard has been approved, subject to conclusion of an agreement governing access to adjoining residential properties, which is expected shortly. Construction is expected to commence in September 1988. The development is presently being funded from the Group's own resources.

Kingsway Hall, Great Queen Street, London WC2

Rockfort has recently acquired this development site of 17,000 sq. ft. gross on which a disused theatre currently stands. Discussions are currently under way with planning consultants to define the best use of the site. The development is presently being funded from the Group's own resources.

Possible future developments

In addition to the developments described above, Rockfort is actively pursuing a number of opportunities for office development in Basingstoke, Reading and central London and for retail development in Reading and Reigate. Rockfort is also actively pursuing opportunities for industrial development in London and elsewhere in south-east England.

ROCKFORT

Rockfort Homes

Rockfort has been involved in residential property development since the early 1980's. In 1986, the Group decided to expand this side of its business significantly. In November 1986, Colin Brooks, who had been engaged by Rockfort Homes since 1981 either as a consultant or as a part-time executive director, was appointed to the board of Rockfort as managing director of Rockfort Homes on a full-time executive basis. Approximately 15 per cent. of the Group's gross profit in 1987 arose from residential development and this proportion is expected to increase over the next few years.

Rockfort Homes has specialised in schemes involving town centre regeneration. The majority of Rockfort Homes' current developments are located in the Thames Valley, with eight new sites acquired in the last year situated within a 20 mile radius of Reading. Rockfort Homes is now targeting a number of new locations for detailed consideration both locally and further afield, including sites in Kent close to the Channel Tunnel which Rockfort has identified as an area for significant future growth.

Site acquisition

Rockfort Homes seeks to acquire sites with, or conditionally upon, outline planning consents or through the acquisition of options which may be exercised when outline planning consents are obtained. Sites also become available to Rockfort Homes through the identification by the Group of mixed commercial and residential development opportunities.

The Directors believe that the acquisition of options makes the best use of the Group's financial resources. Rockfort's ability to acquire options or to purchase sites under conditional contract rests on its reputation for achieving planning consents, and this method of acquisition is adopted wherever possible. Over the past 12 months, Rockfort Homes has achieved planning consent for over 400 units and it currently has land under option or conditional contract which is expected to provide approximately 50 further units. The proceeds of the Offer will be used in part to acquire sites, in particular by the exercise of existing options and acquisition of new options, to facilitate the continued expansion of Rockfort Homes.

The eight sites for current and future residential development listed below in this Part I (excluding the joint venture at Swallowfield) were acquired at a cost of £8.7 million and the Group had spent £1.3 million on them by 30th April 1988. At that date, they had a total capital value in their existing state of £15.9 million.

Design and construction

In general, the policy of Rockfort Homes is to concentrate on the lower-priced end of the housing market with the construction of one and two bedroom homes. In order to increase the market appeal of such homes, the Group has decided to reflect the current interest in leisure pursuits in its future designs. It is intended that, where possible, community facilities such as swimming pools, gymnasiums or community rooms for the use of residents will be incorporated as part of the overall scheme. Rockfort Homes is also involved in the development of sheltered homes for the elderly.

Whilst the majority of construction work in recent years has been undertaken by main contractors, the appointment of a construction director and on-site project managers has provided Rockfort Homes with the ability to control the construction process directly by the management of a team of independent sub-contractors. This approach will permit greater flexibility in making changes or refinements to specification or the rate of construction in response to consumer demand or competitive pressure.

Marketing

During 1987, Rockfort Homes acquired an estate agency based in Reading. This agency fulfils the function of providing market awareness and a market research facility for Rockfort Homes. The acquisition also provides Rockfort Homes with its own sales team and enables it to exercise more direct control over its sales programme. Rockfort Homes will, however, continue to use other estate agents where appropriate, both within the Reading area and further afield.

Completed developments

To date, Rockfort Homes has completed and sold in excess of 200 units on seven sites within a 20 mile radius of Reading. These have ranged from one bedroom homes to retirement housing schemes and from town centre flats to rural "executive" houses.

Completed developments with a total sales value in excess of £0.5 million comprise:

Site	Date of completion	Number of units	Sales value (£ millions)
Laurence Court, Dean Street, Marlow	July 1982	24	0.87
St. Paul's Court, Berkeley Avenue, Reading	August 1983	56	1.39
Kennylands Park, Essex Way, Sonning Common	September 1986	42	2.12
Sibley Park, Earley	October 1987	62	4.69
The Mallards, Great Shefford	April 1988	8	1.18

Current developments

Rockfort Homes currently has seven residential sites under construction which will together provide over 300 units.

The Rockfort Village, Rose Kiln Lane, Reading

Rockfort Homes acquired this residential site of approximately 5.5 acres, which is located close to Reading town centre, in October 1987. It forms part of the site originally planned by Rockfort for a high-tech development, as described above. Demolition of the original industrial buildings is now complete and groundworks have commenced to provide 148 two bedroom flats together with 3 three bedroom houses. It is anticipated that a marketing campaign will commence in July 1988 and that the development will be completed in December 1990. This development represents Rockfort's first opportunity to implement its policy of creating a community atmosphere by the inclusion of a swimming pool and community room facilities for the benefit of residents.

Victoria Court, Reading Road, Henley-on-Thames

This site is located in Henley town centre and was acquired by Rockfort Homes in February of this year. Demolition of the former garage is now complete and construction has commenced, with 35 sheltered flats and bungalows expected to be completed by June 1989. An initial marketing campaign has revealed substantial demand.

Strathedan Place, Thorn Walk, Reading

This courtyard development, which has detailed planning permission, subject to a planning agreement, for 44 two bedroom flats, is being constructed on a former industrial site close to Reading town centre. Twenty-five units have been sold and will be ready for occupation from July of this year. All construction work is expected to be finished by January 1989.

Montrose House, Stanshawe Road, Reading

This site in the centre of Reading was formerly an ironmonger's yard and is part of the site acquired by Rockfort Land for the office development currently under construction in Greyfriars Road, which is described above. Rockfort Homes has planning permission to build 20 studio, one and two bedroom flats, which are expected to be completed by November 1988. Marketing is expected to commence in August 1988.

Fox Glades, Moor End Lane, Thame

This site is situated in the centre of Thame and was acquired by Rockfort Homes in July 1987. The demolition of the old abattoir is now complete and construction work has commenced. Rockfort Homes has detailed planning permission for the construction of 19 units, comprising a mixture of two and three bedroom houses and flats. Marketing is expected to commence in July 1988, with the first property expected to be completed in December 1988 and the development finished in May 1989.

Fisher's Court, 229-239 Peppard Road, Emmer Green, Reading

This sheltered housing development is located on the outskirts of Reading. Rockfort Homes acquired the freehold of the site, a former builder's yard, in March of this year and commenced demolition work almost immediately. Detailed planning permission has been granted. Subject to a planning agreement, for the construction of 16 one and two bedroom sheltered flats which are expected to be completed in June 1989. A marketing campaign is expected to commence in July 1988.

Foxborough, Trowes Lane, Swallowfield, near Reading

This site has detailed planning permission for 20 detached four bedroom houses and is situated close to the village centre. The site was sold to Cavendish Constructors plc under a joint venture agreement which provides that Rockfort Homes undertake the project management for an agreed fee and two-thirds of the development profit. Construction has begun and marketing has recently commenced.

Future developments

These are properties which Rockfort has acquired but where work on site has not yet commenced.

The Grange, Northfield Avenue, Shiplake, near Henley-on-Thames

This site, which was acquired in May 1988, is located close to the River Thames and has outline planning consent for 18 four bedroom detached houses. Detailed planning consent is now being sought. It is hoped that construction will commence in January 1989 and that the first unit will be completed in September 1989.

Golf Road, Deal, Kent

This site is located less than a mile from Deal town centre. Detailed planning permission has been obtained for 113 units comprising a mixture of one, two and three bedroom houses and one bedroom flats. It is expected that construction work will commence shortly and that the first units will be completed in January 1989.

Properties held under option

In addition to the developments described above, Rockfort Homes has options on property at Farringdon Road, Kingston Bagpuize and four other sites near Reading.

Directors and senior management

Directors

Roger Smee, aged 39, is the chairman and managing director of the Company. He qualified as a quantity surveyor in 1974 and then worked for a company engaged in house building, later gaining experience of project management, especially in the Middle East. He established Rockfort Limited in 1976 to specialise in commercial property development and has been involved full time in the expansion of the Group to its present position. He is also managing director of Rockfort Land and as such retains overall responsibility for Rockfort's commercial development programme. Roger Smee has been chairman of The Reading Football Club PLC since 1983.

Michael Toh, FCA, aged 39, is the finance director and secretary of the Company. After qualifying as a chartered accountant in 1972, he joined Coopers & Lybrand, leaving in 1975 to join a London-based practice now known as Chantrey Wood King, where he became a tax partner in 1976 and established that firm's Reading office. He joined Rockfort as an executive director in 1981.

Colin Brooks, aged 44, is managing director of Rockfort Homes, having previously been a director of Scotchbrooks Limited, an estate agency centred on Reading. He was appointed a part-time executive director of Rockfort Homes in 1981, but due to the growth of Scotchbrooks resigned as director in 1984 to devote more time to the agency, while retaining close contacts with the Group. Following the sale of Scotchbrooks to Prudential Property Services Limited, he joined Rockfort as an executive director in November 1986.

Martin Mays-Smith, BA, FCIB, aged 57, was appointed a non-executive director of the Company in May 1988. He is currently a director of Kleinwort Benson Lonsdale plc and of Kleinwort Benson, where he was head of the Banking Division from 1984 until earlier this year. He is also a director of Empire Stores (Bradford) plc and First National Finance Corporation p.l.c. and has recently been appointed vice-president of The London Life Association Limited. Before joining Kleinwort Benson in 1972, he was a managing director of National & Grindlays Bank. Prior to that he worked at the Bank of England for nine years and at Barclays Bank for six years, where he was a local director.

Consultant

Andrew Huntley, FRICS, aged 49, is Chairman of Richard Ellis Financial Services Limited and Senior Partner in the City office of Richard Ellis, Chartered Surveyors. He has been a director of the Company or consultant to the Group since 1986 and attends the Company's board meetings.

Directors of principal subsidiaries

Henry Lyons, aged 38, is an executive director of Rockfort Land and joined Rockfort in December 1986. Prior to that, he was for three years Managing Director of NFC Properties Limited, a property trading development company within the National Freight Consortium PLC. Until May 1988, Henry Lyons was a director of the Company and managing director of Rockfort Land. Civil proceedings involving him personally have recently been commenced in the United States of America arising out of a property transaction entered into by him in that country before he joined Rockfort. Henry Lyons decided that it was inappropriate in the circumstances to continue as a director of the Company and managing director of Rockfort Land. The outcome of the litigation, is unlikely to be known for some time and it is his intention that it be vigorously defended.

Keith Libby, aged 42, is construction director for Rockfort Homes. He trained as a quantity surveyor with Costain Group PLC and later joined the then newly formed Costain Homes Limited as a management trainee. In 1979, he was appointed a director of Hunting Gate Construction Limited. He joined Rockfort in 1987 from Fairview New Homes PLC, where he was construction manager and assistant to the construction director.

Senior management

Brian Cook, FCA, aged 39, qualified as a Chartered Accountant in 1972 and worked in private practice before joining Rockfort in 1982 as Group accountant.

David Entwistle, BSc, MCIOB, aged 35, is external contracts manager for Rockfort Homes. He joined Rockfort in 1987 and was previously contracts manager with Try Build Limited.

Hugo Haig, aged 26, is land buyer for Rockfort Homes and joined Rockfort in 1987. He was previously employed in the land buying department of Fairclough Homes Limited.

Robin Helby, aged 46, is an associate director and project manager for Rockfort Land. He joined Rockfort in 1981 and was previously an associate partner with Gibson Eley, Surveyors.

James Mainwaring, aged 43, is a project manager for Rockfort Land. He has been with the Group since 1978, and was previously with Lesser Land Limited as a development surveyor.

James Tibbles, aged 30, is a development surveyor for Rockfort Land. He joined Rockfort in 1987 from Heron Property Corporation Limited, where he held a similar position. Prior to that he was with Donaldsons, Chartered Surveyors.

David Treloar, BSc, FRICS, aged 35, is an associate director of Rockfort Project Management Services Limited. He joined Rockfort in 1982 and was previously with John Laing Construction Limited, where he held the position of senior project quantity surveyor.

Rockfort currently has a total of 50 employees including executive Directors. Up to a total of 100,000 Ordinary Shares will be reserved in the first instance to meet applications on preferential forms from full-time employees of Rockfort other than Directors. No Director will be applying for Ordinary Shares in the Offer. Further details relating to preferential applications are set out in paragraph 8 in Part V below. Options over a total of 901,416 Ordinary Shares have been granted at the Offer Price to Directors and senior management under the provisions of the Rockfort Group PLC 1986 Executive Share Option Scheme.

Financial record

Rockfort's consolidated results for the five years ended 31st December 1987, which have been extracted from the Accountants' report in Part III of this document, are summarised below:—

	Year ended 31st December				
	1983	1984	1985	1986	1987
	£000	£000	£000	£000	£000
Turnover	13,117	12,490	12,911	14,261	23,261
Profit before taxation	1,062	26	90	664	2,676
Taxation	(186)	(51)	(115)	(246)	(1,082)
Profit/(loss) after taxation	876	(25)	(25)	418	1,594
Extraordinary items	—	(186)	(75)	140	—
Profit/(loss) attributable to shareholders	876	(211)	(100)	558	1,594
Earnings per Ordinary Share (p)	2.2	(0.1)	(0.1)	1.5	5.6

Note:
Further details relating to the financial record, including a breakdown of turnover and gross profit between commercial and residential developments and construction-related activities, are set out in the Accountants' report in Part III of this document.

Prior to 1984, Rockfort operated as a combined property developer and building contractor based in the Reading area. The acquisition in 1979 of the business of McCarthy E. Fitt Limited, a well known local construction firm, enhanced the stature of the Group through its ability to offer construction as well as development services and was a significant factor in enabling the Group to win development opportunities. It also gave the Group its own direct access to technical expertise in construction.

As the Group's portfolio of developments grew, both in number and size of projects, it became clear that the Group could increase its development activities more rapidly than its construction subsidiary; accordingly the relative importance of that subsidiary diminished. McCarthy Fitt had become increasingly demanding of the management and financial resources available at the time, particularly following a loss made in 1983. This resulted in a loss in momentum of the development programme and consequently depressed Group profits in 1984 and 1985. In addition, profits were adversely affected by a number of problems relating to McCarthy Fitt's performance as a construction contractor, particularly in respect of the Group's own development programme, and in May 1984 it was sold.

Since 1985, following the decision to concentrate on its core business of property development and with the benefit of its increased financial resources through Kleinwort Benson Investment Trust Limited acquiring an equity interest and Kleinwort Benson making development finance facilities available, the Group has grown strongly.

The nature of Rockfort's business and, in particular, the size and timing of the profit arising from individual developments are such that one or two transactions have accounted for a significant proportion of the Group's gross profit in a particular year. Examples include Phases I and II of Lovelace Road, Bracknell, and Avco House, Reading in 1983; 43/44 High Street, King's Lynn and Meadow Road, Cirencester in 1984; Maylands Avenue, Hemel Hempstead and Mitcham Road, Croydon in 1985; St Benedict's Square, Lincoln and Phase III of Lovelace Road, Bracknell in 1986 and Thorn Walk, Reading and the grant of an option to purchase Kern House, Lincoln's Inn Fields in 1987. In 1988, St. Andrew Street, London EC4 and the sale of Kern House are together expected to account for approximately 70 per cent. of the Group's gross profit.

Profit forecast

On the bases and assumptions set out in 'Information relating to the profit forecast and estimate of pro forma net tangible assets' in Part IV below, the Directors forecast that, in the absence of unforeseen circumstances, the profit before taxation of the Group for the year ending 31st December 1988 will not be less than £8.40 million. The forecast profit includes an estimate of profit before taxation of £3.60 million for the four months ended 30th April 1988, based on the unaudited management accounts for that period. The profit forecast also includes, for the period from 11th July to 31st December 1988, the benefit arising from use of £18.66 million being the estimated net proceeds of the Offer receivable by the Company.

After an estimated tax charge of £2.94 million, representing an effective tax rate of 35 per cent., earnings are forecast to be £5.46 million or 15.4p per Ordinary Share (based on a weighted average of the number of Ordinary Shares in issue during the year of 35,443,000, after taking account of the reorganisation of the share capital and the issue of Ordinary Shares in connection with the Offer).

Dividends

If the Ordinary Shares had been listed on The Stock Exchange for the whole of the year ending 31st December 1988, the Directors would have expected on the basis of the above profit forecast to recommend net dividends totalling 3.9p per Ordinary Share (5.2p gross) in respect of that year. These dividends would have been paid as to 1.3p as an interim dividend and as to 2.6p as a final dividend. On this basis, the gross dividend yield at the Offer Price would have been 3.7 per cent. and the net dividend would have been covered 3.95 times by forecast earnings per Ordinary Share.

The Ordinary Shares now being offered for sale or subscription will rank in full for all dividends and other distributions hereafter declared, paid or made. It is intended that the first dividend payable by the Company will be a final net dividend of 2.6p per Ordinary Share (3.5p gross) in respect of the year ending 31st December 1988, payable in May 1989. Thereafter, it is expected that interim dividends will be payable in November and final dividends in May in each year.

Estimate of pro forma net tangible assets

The pro forma net tangible assets of the Group at 30th April 1988, as adjusted for the estimated net proceeds of the Offer receivable by the Company of £18.66 million have been estimated by the Directors at £25.80 million, representing 60.0p per Ordinary Share in issue following the Offer. This estimate is based on the net tangible assets at 31st December 1987 of £4.35 million as shown in the Accountants' report in Part III below; the estimate of profit after tax (assuming a 35 per cent. tax charge) for the four months ended 30th April 1988 of £2.34 million; and the uplift of £0.45 million arising from the revaluation as at 30th April 1988 of properties held as investments or occupied by the Group based on the Property valuers' report in Part II below.

Reasons for the Offer

The Directors consider that the listing of the Company's share capital on The Stock Exchange will enhance Rockfort's status as a property development group. Further, the Directors believe that currently there are significant opportunities for the expansion of all the Group's development activities and that the listing will:

— enhance the Group's ability to secure new development opportunities both for Rockfort Land and for Rockfort Homes;

— provide capital which will allow greater flexibility in the financing of the Group's developments;

— enable Rockfort to attract high calibre employees able to contribute to the continued growth of the Group; and

— allow Rockfort to build up its asset base by the retention of selected property investments.

The Ordinary Shares being offered include 3,349,900 Ordinary Shares being sold by the existing shareholders of the Company. The remaining 14,292,430 Ordinary Shares will, after deducting the estimated expenses of the Offer, raise approximately £18.66 million of new capital for the Group.

Following the Offer, Roger Smee and family trusts connected with him will own 18,091,670 Ordinary Shares and Kleinwort Benson Investment Trust Limited will own 4,960,080 Ordinary Shares, representing 42.1 per cent. and 11.5 per cent. respectively of the enlarged issued share capital of the Company. All the existing shareholders have undertaken that, following the Offer, they will not (other than in certain limited circumstances) dispose of any part of their holdings at any time before the publication of the preliminary announcement of Rockfort's results for the year ending 31st December 1988. Roger Smee has established a charitable trust known as The Smee Foundation and on expiry of this restriction he intends to transfer approximately 280,000 Ordinary Shares to the trustees of the Foundation.

Prospects

Rockfort has a substantial current development programme of commercial and residential projects. Following the Offer, it will have considerable financial resources to develop its business. Rockfort has an experienced management team able to develop the Company's corporate strategy, maintain strict financial controls and exploit its entrepreneurial skills. The Directors therefore view the future with confidence and believe that Rockfort is in a strong position to carry out its plans for continued growth.

ROCKFORT

PART II Property valuers' report

The following is a copy of a report received from Jones Lang Wootton, Chartered Surveyors:

The Directors
Rockfort Group PLC
Hurst Grove
Hurst
Reading RG10 0SQ

Jones Lang Wootton
22 Hanover Square
London W1A 2BN

The Directors
Kleinwort Benson Limited
20 Fenchurch Street
London EC3P 3DR

24th June 1988

Dear Sirs,

Rockfort Group PLC

In accordance with your instructions, we have prepared the following advice in respect of the interests of Rockfort Group PLC (the "Company") and its subsidiaries (together the "Group") in the properties listed in the Schedules set out below:—

1. We have valued, as at 30th April 1988, the various freehold and leasehold interests described in Schedules A, B, C, D, E and F.
2. We have assessed the anticipated realisable surplus which will be derived by the Group from developments currently in hand, or proposed, at the properties listed in Schedule G. The Group holds no legal estate in the land in respect of those properties but, by virtue of the managed contracts and joint ventures described in Schedule G, the Group may expect financial benefit or detriment to arise directly or indirectly from its involvement as developer, whether solely or jointly, or as project manager.
3. We have assessed those properties listed in Schedule H, which are under contract for purchase by the Group to confirm that, in our opinion, they are being purchased at fair open market prices.

In each case we have carried out inspections, made relevant local inquiries and obtained such further information as we consider necessary for the purpose of preparing the required advice. Our valuations have been made in accordance with the Guidance Notes prepared by the Assets Valuations Standards Committee of the Royal Institution of Chartered Surveyors, on the basis of open market value.

No allowances have been made for any expenses of realisation, or for taxation, which might arise in the event of a disposal. We have considered each interest as if free and clear of all mortgages or other charges which may be secured thereon.

We have not read any original documents of title or leases and, in giving our advice, have accepted the details of tenure, tenancies, planning consents and all other relevant information with which we have been supplied by the officers of the Group and its other professional advisers. We have had regard to such relevant information as is contained within the Certificates of Title prepared by solicitors to the Group. We have considered the provisions of the various managed contracts and joint venture agreements relating to the properties in Schedule G, and have had regard to the reports prepared by solicitors to the Group in respect of them.

We have assumed that the properties are free of encumbrances, restrictions or other outgoings of an onerous nature which would affect their value, other than those which have been indicated in the Certificates of Title referred to above. We have not seen original planning consents, but have assumed, following confirmation from the Directors of the Company, that the properties have been erected in accordance with such consents. We have also assumed, following confirmation from the Directors of the Company that the Group has received no notices to the contrary, that the properties are being occupied and used in accordance with such planning consents and that there are no outstanding statutory notices.

We were not instructed to carry out structural or soil surveys of any of the existing buildings or sites forming parts of the various properties, but we have reflected any apparent wants of repair in our advice and valuations where appropriate. Our advice and valuations have been prepared on the basis of the assurance by the Directors of the Company that, to the best of their knowledge, no known deleterious materials or techniques have been or are being used in the construction of the subject buildings.

We are of the opinion that the aggregates of the open market values, as at 30th April 1988, of the interests currently held by the Group in the properties listed in Schedules A to F inclusive were:—

	Description	Freehold	Leasehold
		£	£
A.	Properties held as investments	1,050,050	—
B.	Properties being developed (commercial)	835,000	—
C.	Land in course of residential development for resale	11,996,000	—
D.	Properties held for development in the future (commercial)	13,616,500	—
E.	Properties held for development in the future (residential)	4,265,000	—
F.	Properties occupied primarily by the Group	2,500,000	52,500
		34,262,550	52,500
		TOTAL	£34,315,050

G. We calculate that the anticipated surplus to be derived by the Group from the managed contracts and joint ventures listed in Schedule G, with surpluses anticipated between October 1988 and October 1989, calculated on values as at 30th April 1988, will be: £7,257,000

H. We are of the opinion that the properties under contract for purchase and listed in Schedule H are being purchased at fair open market prices totalling: £5,050,000

Finally, and in accordance with our normal practice, this advice is for the use only of the parties to whom it is addressed and their other professional advisers for the specific purpose of the listing particulars to be issued by the Company and dated 24th June 1988 and those who are from time to time shareholders of the Company, and no responsibility whatsoever is accepted to any other third party.

Yours faithfully,

Jones Lang Wootton

Chartered Surveyors

Schedules

The addresses of the various properties concerned, together with the nature of the interest held by the Group, are as follows:—

A. PROPERTIES HELD AS INVESTMENTS

Property	Description, age and tenure	Terms of existing tenancies	Estimated current net annual rents receivable	Present capital value in existing state
			£	£
786-794 Oxford Road, Reading, Berkshire	A three storey building totalling 8,800 sq. ft., used for motor vehicle sales and servicing on lower ground and ground floor with self-contained offices on first floor. There is surfaced car parking for about 30 vehicles on the remainder of the site, which extends in total to about 0.4 acres. Built in 1979. Freehold.	The entire property is let to Kennett Motors of Reading Limited for a term of 25 years expiring in June 2005 on a full repairing and insuring basis with five yearly rent reviews, at a current rent of £47,500 per annum.	47,500	625,000
Units 1-4 Rockfort Industrial Estate, Hithercroft Road, Wallingford, Oxon	A terrace of four single storey light industrial units providing a total of approximately 9,600 sq. ft. Built in 1982/83. Freehold.	Let to four tenants on separate full repairing and insuring leases, three for 25 years commencing 25th March 1983 and one for 20 years 6 months from 25th December 1985, with 5 yearly rent reviews. The current rents total £32,400 per annum.	32,400	425,000
687-689 Mitcham Road, Croydon, Surrey	Two single storey industrial units of 14,015 sq. ft. and 26,915 sq. ft. with two storey offices. Built in 1983. Freehold.	Let to Sun Life Assurance Company of Canada for 999 years from 21st January 1986 at a peppercorn rent and on full repairing and insuring terms. By a separate agreement the tenant has the option to purchase the freehold for £850, exercisable for one year from 21st January 2012.	0	50
			79,900	1,050,050

B. PROPERTIES BEING DEVELOPED (COMMERCIAL)

Property	Description, age and tenure	Tenancies arranged	Present capital value in existing state	Estimated completion and occupation dates	Estimated cost of completing development	Estimated net annual rental before tax	Capital value when completed	Capital value when completed and let
			£		£	£	£	£
15½–16 High Street, Banbury, Oxon	Two terraced shop properties arranged on basement, ground and two upper floors. Currently under alteration to provide two shop units of 525 sq. ft. and 2,051 sq. ft. on ground floor. No. 16, the larger unit, will be provided with storage and staff accommodation, totalling 1,404 sq. ft., on the upper two floors over both units. Built approximately 1900. Freehold.	None.	835,000	Completion due August 1988. Occupation due by December 1988.	196,400	64,150	1,200,000	1,250,000
			835,000		196,400			1,250,000

C. LAND IN COURSE OF RESIDENTIAL DEVELOPMENT FOR RESALE

Property	Description, age and tenure	Capital value in existing state
		£
The Rockfort Village, Rose Kiln Lane, Reading, Berkshire	A residential development site extending to about 5.5 acres with a resolution for outline planning consent, approved on 28th September 1987, for 151 residential units subject to the conclusion of an agreement under section 52 of The Town and Country Planning Act 1971 as amended ("section 52 agreement"). Construction has commenced on the infrastructure. Freehold.	5,300,000
Victoria Court, Reading Road, Henley-on-Thames, Oxon	A residential development site of approximately 1.38 acres with detailed planning consent, dated 7th January 1988, for 35 sheltered flats and houses. Demolition has been completed and site works have commenced. Freehold.	2,200,000
Stratheden Place, Thorn Walk, Reading, Berkshire	A residential development site of approximately 1.31 acres with detailed planning consent, dated 2nd September 1987, for 44 two bedroom flats subject to a section 52 agreement. The development is currently in the course of construction. Freehold.	1,820,000
Montrose House, Stanshawe Road, Reading, Berkshire	A central Reading residential development site of approximately 0.15 acres currently under construction for 20 one and two bedroom flats with planning consent dated 9th October 1987. The development will comprise two separate buildings, one containing 18 flats on ground and four upper floors, the other two flats on ground and first floors, together with on-site car parking. The property is adjacent to an office development, also under construction by the Group. A section 52 agreement requires the residential development to be completed prior to occupation of the adjoining office building. Freehold.	820,000
Fox Glades, Moor End Lane, Thame, Oxon	A level cleared site of approximately 0.9 acres close to the town centre in an area of mixed uses. Planning consent has been approved for 19 residential units ranging from two bedroom flats to three bedroom detached houses and notice of the planning consent is awaited. Freehold.	900,000
Fisher's Court, 229-233 Peppard Road, Emmer Green, Reading, Berkshire	A residential development site of approximately 0.47 acres with detailed planning consent, dated 30th March 1988, for 16 sheltered flats subject to a section 52 agreement. Demolition on site has commenced. Freehold.	650,000
Petritoli, Basingstoke Road, Riseley, Nr Reading, Berkshire	A residential development site comprising approximately 0.34 acres with detailed planning consent, dated 10th June 1987, for 2 four bedroom detached houses with garage. Construction is complete. Freehold.	300,000
Kennylands Park, Essex Way, Sonning Common, Reading, Berkshire	A completed development of sixteen flats contained within 4 two storey brick built residential blocks, situated on an existing residential estate. Built in 1985. Freehold; all flats are let on leases of 99 years from 1st January 1985 on full repairing and insuring terms. The ground rents total £800 per annum rising to £1,600 per annum in 2018 and £3,200 per annum in 2051, and the freehold interest is being held for resale.	6,000
		11,996,000

D. PROPERTIES HELD FOR DEVELOPMENT IN THE FUTURE (COMMERCIAL)

Property	Description, age and tenure	Terms of existing tenant's leases	Estimated current net annual rents receivable	Capital value in existing state
			£	£
22-24 Stonegate and the Stonegate Arcade, York, North Yorkshire	A modern shopping precinct, comprising 19 small units arranged around an arcade which runs between Stonegate and Blake Street. There are two entrances off Stonegate and one off Blake Street. In addition, there are two adjoining Grade II listed shop units at nos. 22 & 24 Stonegate and a further Grade II listed shop unit at no. 11 Blake Street, with office accommodation above on three upper floors. The retail accommodation totals approximately 9,600 sq. ft., with a further 7,900 sq. ft. of offices and storage. The precinct was built in 1981. Freehold.	Units 1, 8, 9 and 12 are each let for terms of 25 years at current rents totalling £33,000 per annum on full repairing and insuring terms with five yearly rent reviews. Units 8 and 12 have 1985/1986 rent reviews outstanding. 24 Stonegate is subject to a tenancy agreement which expires on 16th July 1988, at a rent of £3,000 per month. The remainder of the accommodation is held vacant.	63,000	6,366,500
42-50 Leman Street, London E1	A cleared office development site of approximately 9,000 sq. ft. gross, with detailed approval, subject to conclusion of a section 52 agreement, for 23,300 sq. ft. of offices and planning approval in principle, subject to conclusion of a section 52 agreement, for an additional 2,200 sq. ft. of offices. Freehold.	None	0	5,750,000
Kingsway Hall, Great Queen Street, London WC2	A disused theatre located in central London occupying a site of approximately 17,000 sq. ft. gross. Freehold. Note: The purchase of this property was completed on 2nd June 1988, a month after the valuation date. We are satisfied that there is no difference in value between the two dates.	Part of the basement is let to London Borough of Camden for 999 years from 2nd June 1988. The tenant has an internal repairing obligation only but contributes to expenditure on the main structure of the building. The rent is a peppercorn if demanded.	0	1,500,000
			63,000	13,616,500

E. PROPERTIES HELD FOR DEVELOPMENT IN THE FUTURE (RESIDENTIAL)

Property	Description, age and tenure	Capital value in existing state
		£
The Grange, Northfield Avenue, Shiplake, Nr. Henley-on-Thames, Oxon	A residential development site of approximately 3.83 acres with outline planning consent, granted on appeal and dated 30th March 1988, for 18 four bedroom houses. Freehold.	2,600,000
Golf Road, Deal, Kent	A residential development site of approximately 5.8 acres with detailed planning consent, dated 29th April 1988, for 85 one, two and three bedroom houses and 48 one bedroom flats. Freehold.	1,600,000
Kennylands Park, Peppard Road, Sonning Common, Nr. Reading, Berkshire	An undeveloped site of approximately 15 acres of open parkland. Freehold.	65,000
		4,265,000

F. PROPERTIES OCCUPIED PRIMARILY BY THE GROUP

Property	Description, age and tenure	Capital value in existing state
		£
Hurst Grove, Sandford Lane, Hurst, Reading, Berkshire	A distinctive country house which has been recently restored and extended to provide a total of 9,110 sq.ft. of offices on ground and first floors. The house is situated in parkland extending to approximately 37 acres. A disused stable block of some 1,800 sq.ft. gross adjoins the main house, and has planning consent for a change of use to provide ancillary residential accommodation. The main house is listed Grade II. Built in the 18th century, and extended in 1988. Freehold.	2,500,000
15 Hay's Mews, London W1	A period terraced house on basement, ground and four upper floors currently arranged as offices with a self-contained flat on the fourth floor. Built in the early 19th century. Leasehold, held under an assignment of a lease for a term of 20 years from December 1976 at a current rent of £35,000 per annum, on full repairing and insuring terms with five yearly rent reviews.	50,000
105 London Street, Reading, Berkshire	A terraced property comprising a small ground floor lock-up shop with first floor offices, having a total floor area of approximately 1,150 sq. ft. The property has planning consent for office use with an estate agency on the ground floor. Built in the late 19th century. Leasehold, held for a term of 20 years from 24th June 1977 at a current rent of £10,250 p.a., on full repairing and insuring terms with five yearly rent reviews.	2,500
		2,552,500

G. MANAGED CONTRACTS AND JOINT VENTURES

Property	Nature of interest	Description of project and planning status	Potential surplus on completion and expected date of receipt
18-20 St. Andrew Street, London EC4	The Group has entered into a project management agreement with the freeholder, Norwich Union Fire Insurance Society, whereby the Group will carry out an office development. Interim development finance is being provided by the freeholder, who will pay a final sum to the Group on satisfactory completion and letting of the scheme, calculated on an agreed multiplier of the net rental income achieved.	The site is currently under development as an office building on basement, ground and eight upper floors to provide a total of 51,250 sq.ft. approximately. An agreement for lease has been concluded with Coopers & Lybrand for the entire building. Planning consent for the scheme was granted on 11th February 1986 and construction is scheduled for completion in August 1988.	£3,787,000 receivable in September 1988
9-27 Greyfriars Road, Reading, Berkshire	The Group has entered into a development contract with the freeholder, Britel Fund Trustees Limited, whereby the Group will carry out an office development. Interim finance is being provided during construction by the freeholder who, on satisfactory completion and letting of the building, will pay a final sum calculated on an agreed multiplier of the net rental income.	The site is currently under development as an office building comprising a total of approximately 37,490 sq.ft. of air-conditioned office space on ground and three upper floors. In addition, some 20 surface car parking spaces are to be provided. Under an agreement for lease dated 29th June 1987, the fund has pre-let the entire building to Coopers & Lybrand for a term of 25 years. The agreed rental level is in excess of the base rental level set out in the development contract. Detailed planning permission for the scheme was granted on 9th October 1987 and construction commenced on site in September 1987. Completion of the development is anticipated in November 1988.	£1,380,000 receivable in December 1988.

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Property	Nature of interest	Description of project and planning status	Potential surplus on completion and expected date of receipt
135-137 Aldersgate Street, London EC1	The Group has entered into a building agreement with London Underground Limited, the freeholder, for the construction of a new shop and office development. The Group will occupy the site during construction by way of formal licence and there are mutual obligations on both parties to grant and take up a new long lease of the property once completion has been satisfactorily certified. The Group has entered into a development contract with TSB Group Pension Trust Limited which obliges the Group to carry out the agreed scheme. The fund will acquire the long lease either by direct grant, or by assignment from the Group, on completion of the scheme and will provide the necessary development finance up to a pre-determined maximum sum. Following completion of the scheme to both the fund's and London Underground's satisfaction, the Group will be entitled to a final sum calculated in accordance with a specified formula based on the level of net rents achieved from approved lettings.	The project will provide a new shop and office development over Barbican Underground Station and will include the construction of various new elements for the station itself. The offices will be on ground and four upper floors and will have a minimum floor area of 16,500 sq.ft. There will be two shop units at ground floor level having a minimum floor area of 400 sq.ft. Construction of the scheme, for which a revised detailed planning consent was granted on 10th November 1987, has commenced with completion scheduled for April 1989.	£915,000 receivable in October 1989
Castlefield Court, 48-62 Church Street, Reigate, Surrey	The Group has entered into a development contract with the freeholder, The Colonial Mutual Life Assurance Society Limited, whereby the Group will carry out an office development on the site. On satisfactory completion and letting of each unit of the development, the freeholder will pay Rockfort a final sum calculated by apportionment of overage payments, based on various tranches of rental income defined in the contract. There is provision for the buildings to be disposed of at a premium by way of long (999 year) leases, in which case the payments to Rockfort will be calculated by reference to a notional income derived from the premium received.	The site is currently under development as three self-contained office buildings providing approximately 8,900 sq. ft. of non air-conditioned space, together with the conversion of a listed dwelling house to provide an additional 1,700 sq. ft. of office space. A total of 44 car parking spaces are to be provided in addition. The largest unit of 4,700 sq. ft. has been pre-let to Charles Church Developments plc. Detailed planning permission for the new-build units was granted on 30th April 1987, with completion expected in July/August 1988. Detailed planning and listed building consents for the listed building conversion were granted on 7th January 1988, with completion required by 31st March 1989 under the terms of the contract.	£475,000 receivable by March 1989
50-64 Caversham Road, Reading, Berkshire	The Group has entered into a development contract with the freeholder, Fossfund Custodian Trustee Limited, whereby the Group will carry out an office development. Interim finance is being provided during construction by the freeholder who, on satisfactory completion and letting of the building, will pay a final sum calculated on an agreed multiplier of the net rental income achieved.	A completed development comprising a total of approximately 18,120 sq.ft. of air-conditioned office space on ground and two upper floors. In addition, some 15 car parking spaces are provided at basement level. Under an agreement for lease dated 27th April 1988, the fund has pre-let the entire building to Premier Portfolio Limited for a term of 25 years at a rental of £289,120 per annum. The proposed rental is in excess of the base rental level set out in the development contract. Detailed planning permission for the scheme was granted on 17th March 1987 and revised permission granted on 3rd June 1988. Construction commenced on site in January 1987. The development was completed in June 1988.	£250,000 receivable by October 1988
Foxborough, Trowes Lane, Swallowfield, Nr. Reading, Berkshire	The Group has entered into a joint venture agreement with Cavendish Constructors plc, the freeholders, whereby on completion of the residential development the Group is entitled to a final payment of £126,892 (plus interest) and two thirds of any further profit having first allowed for a profit share of £140,000 to be allocated to Cavendish Constructors plc.	The site, of approximately 2.63 acres, is in the initial stages of development to provide 20 residential dwellings. Detailed planning consent for the scheme was granted on 4th January 1988 and construction started on site in May 1988 with completion scheduled for May 1989.	£250,000 receivable by April 1989
St. Benedict's Square, Lincoln, Lincolnshire	The Group has entered into an agreement with Lincolnshire Publishing Company Limited and Boots Pensions Limited to carry out a shopping development. Upon completion and letting, Boots Pensions Limited are to pay both parties a sum calculated on an agreed multiplier of the net rent achieved. This sum is payable as each unit is let, and is divided equally between the Group and Lincolnshire Publishing Company Limited.	The project, comprising a parade of seven shop units, is completed and let with the exception of Unit 3 (495 sq. ft.). Detailed planning permission for the development was granted on 30th September 1985.	£200,000 receivable in December 1988
			7,257,000

H. PROPERTIES UNDER CONTRACT FOR PURCHASE

Property	Description, age and terms of contract
21-27 Tabernacle Street and 6 Epworth Street, London EC2	A development site extending to approximately 3,800 sq. ft. with detailed planning consent for the construction of a new office building of 12,665 sq. ft. on basement, ground and four upper floors behind a partly retained facade and incorporating a public house at ground and basement levels. The site is to be held on a 150 year lease from the Church Commissioners at a fixed rent of £1,000 per annum.
31-53 The Green, West Drayton, Middlesex	A disused factory/warehouse complex with a listed frontage to The Green, providing a total of approximately 40,000 sq. ft. on 0.83 acres. Planning consent is being sought for the redevelopment of the site with 20,650 sq. ft. of offices and the refurbishment of a house fronting The Green. The planning application has been approved subject to the imminent conclusion of a section 52 agreement. Contracts have been exchanged to purchase the freehold.
Aggregate purchase price	£5,050,000

PART III Accountants' report

The following is a copy of a report received from Coopers & Lybrand, Chartered Accountants, the Auditors and Reporting Accountants:

Coopers & Lybrand

Bridewell House, 6 Greyfriars Road
Reading RG1 1JG

Plumtree Court, London EC4A 4HT

The Directors
Rockfort Group PLC
Hurst Grove
Hurst
Reading RG10 0SQ

The Directors
Kleinwort Benson Limited
20 Fenchurch Street
London EC3P 3DB

24th June 1988

Dear Sirs

1. We have examined the audited accounts of Rockfort Group PLC (the "Company") and its subsidiary companies (together called the "Group") from 1st January 1983, or their date of incorporation or acquisition (if later), to 31st December 1987 or their date of disposal (if earlier). The subsidiary companies concerned and the commencement of the accounting periods covered by our report are set out below:—

Rockfort Limited	1st January 1983	
Rockfort Land Limited	1st January 1983	
Rockfort Estates Limited	1st January 1983	
Woodley Haulage Company Limited	1st January 1983	
Rockfort Investments Limited	1st January 1983	
Rockfort Homes Limited	1st January 1983	
McCarthy Fitt Limited	1st January 1983	(disposed of in May 1984)
Commercial Finishing Contractors Limited	1st January 1983	(disposed of in June 1985)
Rockfort Developments Limited	3rd May 1983	
Rockfort Trustees Limited	15th August 1986	
Langdown Management Limited	6th March 1987	
Rockfort Project Management Services Limited	21st May 1987	
Duncan Vincent Limited	1st July 1987	

2. We have been auditors of the Group in respect of all of the above accounting periods. No audited accounts have been prepared for any period subsequent to 31st December 1987 in respect of any member of the Group.

3. The financial information set out in this report is based on the audited accounts of the companies in the Group after making such adjustments as we consider necessary. Our work has been carried out in accordance with the Auditing Guideline: "Prospectuses and the Reporting Accountant."

4. No dividends have been paid in respect of any of the periods reported upon.

5. In our opinion, the financial information set out below gives a true and fair view of the results, and source and application of funds of the Group for each of the five years ended 31st December 1987, and of the state of affairs of the Group at the end of each of those years.

Accounting policies

6. The significant accounting policies adopted in arriving at the financial information set out in this report, which have been consistently applied, are as follows:—

(a) Accounting convention

The accounts have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets, the details of which are contained in note (a) to the balance sheets.

(b) Basis of consolidation

The consolidated accounts include the results of the Company and all its subsidiaries. The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the date of their acquisition or up to the date of their disposal. Intra-group sales and profits are eliminated on consolidation and all sales and profit figures relate to external transactions only.

(c) Goodwill

Goodwill arising on consolidation, being the excess of the purchase price over the net assets of subsidiary companies at the date of acquisition, and purchased goodwill, are normally written off immediately against reserves.

(d) Tangible fixed assets

Depreciation is calculated so as to write off the cost or valuation of tangible fixed assets on a straight line basis over the expected useful economic lives of the assets concerned. The principal annual rates used for this purpose are:—

	%
Freehold buildings	2
Equipment and motor vehicles	25
Office furniture and fittings	20
Computer equipment	33⅓

Leasehold land and buildings are amortised over the period of the lease. No depreciation is provided on freehold land. No depreciation is provided on freehold investment properties as they are dealt with in accordance with Statement of Standard Accounting Practice No. 19.

(e) Investment properties

Completed investment properties are included in the accounts on an open market value basis. Valuation surpluses and deficits are transferred to the revaluation reserve.

Investment properties in the course of development are included at the lower of cost or Directors' valuation.

(f) Land, developments in progress and properties held for sale

These are valued at the lower of cost, excluding interest (see paragraph (i) below), and estimated net realisable value. Full provision is made for any losses that are likely to arise under development contracts.

(g) Turnover

Turnover, which excludes value added tax and sales between Group companies, represents the invoiced value of goods and services provided, properties and developments sold, including billings against architects' certificates on development contracts.

(h) Recognition of profit

Profits are recognised as follows:—

(i) commercial developments—on exchange of binding and substantially unconditional contracts for sale, or following practical completion, when a lease or agreement to lease has been exchanged;

(ii) residential developments—following practical completion of a unit, when a contract for sale has been exchanged; and

(iii) project management fees and other income—on an accruals basis.

(i) Interest

All interest, including interest arising on loans against land held for development and properties in the course of development, is expensed as incurred.

(j) Taxation

The charge for taxation is based on the results for the year as adjusted for disallowable items.

Taxation deferred or accelerated is accounted for in respect of all material timing differences to the extent that it is probable that a liability will crystallise. Timing differences arise from the inclusion of items of income and expenditure in tax computations in periods different from those in which they are included in the accounts. Provision is made at the estimated rate which will apply when the liability is expected to crystallise. No provision for deferred taxation is made on surpluses arising from the revaluation of land and buildings unless there is an intention to dispose of these.

The amount of unprovided deferred tax is calculated at the best estimate of corporation tax rates in the longer term and is analysed into its major components.

Consolidated profit and loss accounts

7. The consolidated profit and loss accounts of the Group for the five years ended 31st December 1987 are set out below:—

	Notes	1983	1984	1985	1986	1987
		£000	£000	£000	£000	£000
Turnover	(a)	13,117	12,490	12,911	14,261	23,261
Cost of sales		(10,691)	(11,159)	(11,222)	(11,821)	(17,946)
Gross profit	(b)	2,426	1,331	1,689	2,440	5,315
Net operating expenses		(1,022)	(877)	(814)	(836)	(1,429)
Operating profit	(d)	1,404	454	875	1,604	3,886
Share of profit of associated company		23	5	—	—	—
Interest payable and similar charges	(e)	(365)	(433)	(785)	(940)	(1,210)
Profit before taxation		1,062	26	90	664	2,676
Taxation profit on ordinary activities	(f)	(186)	(51)	(115)	(246)	(1,082)
Profit/(loss) on ordinary activities after taxation before extraordinary items		876	(25)	(25)	418	1,594
Extraordinary items	(g)	—	(186)	(75)	140	—
Profit/(loss) retained		876	(211)	(100)	558	1,594
Earnings per Ordinary Share (pence)	(h)	2.2	(0.1)	(0.1)	1.5	5.6

	1983	1984	1985	1986	1987
	£000	£000	£000	£000	£000
Movements on retained profits					
Retained profits/(loss) at beginning of period	(296)	580	511	411	969
Retained for the period	876	(211)	(100)	558	1,594
Adjustment upon disposal of a subsidiary	—	142	—	—	—
Goodwill written off	—	—	—	—	(31)
Retained profits at end of period	580	511	411	969	2,532

Notes:

(a) Turnover

Turnover is made up as follows:—

	1983	1984	1985	1986	1987
	£000	£000	£000	£000	£000
Commercial developments	8,548	10,141	10,107	12,064	18,820
Residential developments	1,407	731	1,263	2,197	4,441
Construction-related activities	3,162	1,618	1,541	—	—
	13,117	12,490	12,911	14,261	23,261

(b) Gross profit

Gross profit is made up as follows:—

	1983	1984	1985	1986	1987
	£000	£000	£000	£000	£000
Commercial developments	1,766	747	1,212	2,093	4,492
Residential developments	396	88	232	347	823
Construction-related activities	264	496	245	—	—
	2,426	1,331	1,689	2,440	5,315

(c) Employee information

(i) The average number of persons, including executive Directors, employed by the Group was as follows:—

	1983	1984	1985	1986	1987
Average number of employees	88	51	25	18	29

(ii) Group employment costs, for all employees including executive Directors, was as follows:—

	1983	1984	1985	1986	1987
	£000	£000	£000	£000	£000
Salaries	766	543	418	335	659
Employer's national insurance contributions	71	47	28	34	63
Employer's pension contributions	17	20	22	20	25
	854	610	468	389	747

(d) Operating profit

Operating profit is stated after charging:—

	1983	1984	1985	1986	1987
	£000	£000	£000	£000	£000
Depreciation	85	73	83	67	99
Auditors' remuneration	23	15	15	17	23
Directors' emoluments	143	138	169	185	331

(e) Interest payable and similar charges

An analysis of interest payable for the five years ended 31st December 1987 is given below:—

	1983	1984	1985	1986	1987
	£000	£000	£000	£000	£000
On bank loans, overdrafts and other loans repayable within five years	306	433	785	923	1,002
On loans repayable wholly or partly in more than five years	59	—	—	17	208
	365	433	785	940	1,210

(f) Taxation on profit on ordinary activities

The taxation charge, which is based on the profit for the year, comprises:—

	1983	1984	1985	1986	1987
	£000	£000	£000	£000	£000
United Kingdom corporation tax based on the profit for the year	204	17	124	230	1,090
Transfer to/(from) deferred taxation	—	20	(9)	—	—
Adjustments in respect of previous years	(26)	12	—	16	(8)
Share of associated company's tax charge	8	2	—	—	—
Total taxation on profit on ordinary activities	186	51	115	246	1,082

(g) Extraordinary items

These comprise the following:—

	1983	1984	1985	1986	1987
	£000	£000	£000	£000	£000
Loss on disposal of subsidiary and associated companies	—	(186)	(75)	—	—
Capital receipt arising from the release from a contract to acquire a private company	—	—	—	200	—
Taxation	—	—	—	(60)	—
	—	(186)	(75)	140	—

(h) Earnings per Ordinary Share

The calculation of earnings per Ordinary Share has been based on the profit on ordinary activities after taxation but before extraordinary items, divided by the average number of shares in issue during the relevant accounting periods. The number of shares in issue has been adjusted to reflect the subdivision of £1 ordinary shares into 20p Ordinary Shares and the capitalisation issue which is taking place as part of the Offer for Sale. The numbers of Ordinary Shares used in the calculation were as follows:—

	1983	1984	1985	1986	1987
	Thousands of shares				
Average number of shares (as adjusted)	40,173	40,173	39,593	28,423	28,554

Consolidated statements of source and application of funds

8. The consolidated statements of source and application of funds for the Group for the five years ended 31st December 1987 are set out below:—

	1983	1984	1985	1986	1987
Source of funds	£000	£000	£000	£000	£000
Profit on ordinary activities before taxation	1,062	26	90	664	2,676
Extraordinary income/(charge)	—	(186)	(75)	200	—
	1,062	(160)	15	864	2,676
Adjustments for items not involving the movement of funds:					
Depreciation of tangible fixed assets	85	73	83	67	99
Loss on disposal of tangible fixed assets	5	16	140	14	—
Previous year unrealised profits now realised	—	(33)	(5)	—	—
Adjustment on disposal of subsidiary and associated companies	—	142	76	—	—
Income from shares in associated company not represented by dividends received	(23)	(5)	—	—	—
Loss on short-term investments	—	—	—	—	146
Total generated by operations	1,129	35	309	945	2,921
Funds from other sources					
Net proceeds of share issue	—	—	1,024	—	51
Issue of shares in a subsidiary company	—	—	—	—	330
Sale of tangible fixed assets	6	90	515	47	50
Sale of subsidiary company	—	—	112	—	—
Sale of associated company	—	—	10	—	—
	1,135	125	1,970	992	3,352
Application of funds					
Acquisition of subsidiary companies (see note below)	—	—	—	—	(61)
Purchase of own shares	—	—	(600)	—	—
Purchase of tangible fixed assets	(719)	(676)	(205)	(695)	(1,095)
Taxation paid	(2)	(90)	(131)	—	(87)
	414	(641)	1,034	297	2,109
Movement in working capital					
Stocks	(574)	397	(2,829)	1,458	(10,760)
Debtors	(15)	(978)	(2,737)	(225)	2,529
Creditors	368	(137)	(17)	(251)	453
Development funding	—	67	4,313	(1,434)	7,304
Bank loans and overdraft	(175)	1,038	(99)	126	(127)
Movement in net liquid funds	18	348	(335)	(29)	1,508
Increase/(decrease) in:					
Cash and bank balances	18	348	(335)	(29)	1,124
Short-term investments	—	—	—	—	384
Movement in net liquid funds	18	348	(335)	(29)	1,508

ROCKFORT

Note:–
The net assets acquired were:

	£000
Goodwill	31
Stocks	322
Creditors	(39)
Taxation	(13)
Development funding	(168)
Bank overdraft	(77)
	61

Consolidated balance sheets

5. The summarised consolidated balance sheets of the Group as at the end of each of the five years ended 31st December 1987 are set out below:—

	Notes	1983 £000	1984 £000	1985 £000	1986 £000	1987 £000
Fixed assets						
Tangible assets	(a)	1,291	1,859	1,106	2,180	3,126
Investments		15	18	—	—	—
		1,306	1,877	1,106	2,180	3,126
Current assets						
Stocks	(b)	3,721	3,324	6,153	4,695	15,777
Debtors	(c)	665	1,041	3,778	4,003	1,474
Investments	(d)	—	—	—	—	238
Cash at bank and in hand		109	457	122	93	1,217
		4,495	4,822	10,053	8,791	18,706
Creditors – amounts falling due within one year	(e)	(3,873)	(3,633)	(9,311)	(7,801)	(14,745)
Net current assets		622	1,189	742	990	3,961
Total assets less current liabilities		1,928	3,066	1,848	3,170	7,087
Creditors – amounts falling due after more than one year	(f)	(584)	(1,712)	(182)	(439)	(2,412)
Provision for liabilities and charges	(g)	—	(31)	—	—	—
		1,344	1,323	1,666	2,731	4,675
Capital and reserves						
Called up share capital	(i)	614	614	947	947	957
Share premium account	(k)	—	—	90	90	131
Revaluation reserve	(l)	150	198	216	725	725
Profit and loss account		580	511	411	969	2,532
		1,344	1,323	1,666	2,731	4,345
Minority interest	(m)	—	—	—	—	330
		1,344	1,323	1,666	2,731	4,675

Notes:

(a) **Tangible fixed assets**

As at 31st December	1983 £000	1984 £000	1985 £000	1986 £000	1987 £000
Freehold properties					
Investment properties					
—at cost	60	—	—	—	—
—at valuation	1,035	1,170	360	360	742
Other freehold properties					
—at cost	—	538	—	11	471
—at valuation	—	—	650	1,700	1,700
Leasehold properties at cost	—	19	7	7	9
Other assets at cost	347	269	223	247	428
	1,442	1,996	1,240	2,325	3,350
Depreciation	(151)	(137)	(134)	(145)	(224)
Net book value	1,291	1,859	1,106	2,180	3,126

The investment properties comprise four fully let industrial units at Wallingford, Oxfordshire and a two storey new car showroom and workshop at Reading, Berkshire.

Other freehold property comprises the Group's head office at Hurst Grove, Reading, Berkshire.

(b) **Stocks**

The amounts attributable to the different categories are as follows:—

As at 31st December	1983 £000	1984 £000	1985 £000	1986 £000	1987 £000
Completed developments held for sale	573	16	5	848	845
Properties in the course of development	1,803	2,459	676	2,288	4,680
Land and property held for development	987	747	5,472	1,519	10,252
Contract work in progress	443	635	—	—	—
Other work in progress	47	—	—	—	—
	3,853	3,857	6,153	4,655	15,777
Less progress payments	(149)	(535)	—	—	—
Other stocks	17	2	—	39	—
	3,721	3,324	6,153	4,695	15,777

The properties included in the above total of £15,777,000 are the properties which have been valued as at 30th April 1988 by Jones Lang Wootton in Schedules B to E and G of the Property valuers' report set out in Part II of the listing particulars of the Company dated 24th June 1988, with the following exceptions:—

(i) Properties included in the above total but which are not included in the above Schedules of the Property valuers' report:

Poplar Lane, Winnersh Farringdon Road, Kingston Bagpuize Part Lane, Swallowfield Cutbush Lane, Shinfield	Sites not yet acquired. Value in stock represents initial costs and option payments.
Kern House, London WC2 Ashley Road, Parkstone The Mallards, Great Shelford London Road, Staines Harwood Close, Woodley	Developments sold between 1st January and 24th June 1988.

(ii) Properties not included in the above total but which are included in the above Schedules of the Property valuers' report:

Kingsway Hall, London WC2 15½–18 High Street, Banbury Fisher's Court, Peppard Road, Reading 22–24 Stonegate and the Stonegate Arcade, York The Grange, Northfield Avenue, Shiplake Golf Road, Deal	Sites acquired between 1st January and 24th June 1988.
Kennylands Park, Essex Way, Reading	This is the freehold of flats completed in 1985 in respect of which no value has been attributed for accounts purposes.
St. Benedict's Square, Lincoln	This is a joint venture and related costs are included within project debtors.

(c) **Debtors**

As at 31st December	1983 £000	1984 £000	1985 £000	1986 £000	1987 £000
Trade debtors	510	923	3,527	3,723	1,111
Prepayments and accrued income	70	23	20	22	116
Other debtors	70	84	231	258	247
Amounts owed by associated company	15	11	—	—	—
	665	1,041	3,778	4,003	1,474

(d) **Investments**

Investments relate to holdings of shares listed on The Stock Exchange and are stated at the lower of cost and market value. The market value of these investments as at 31st December 1987 amounted to £236,000. These investments were sold in April 1988.

(e) **Creditors — amounts falling due within one year**

As at 31st December	1983 £000	1984 £000	1985 £000	1986 £000	1987 £000
Bank loans and overdrafts	1,799	1,748	7,471	5,901	11,347
Payments received on account	35	122	28	48	6
Trade creditors	1,544	1,225	1,313	1,065	1,146
Other creditors, including taxation and social security	339	411	304	599	1,657
Accruals and deferred income	129	127	195	190	589
Amounts owed to associated company	27	—	—	—	—
	3,873	3,633	9,311	7,801	14,745

Bank loans and overdrafts are secured by specific charges over freehold properties, land held for development and properties in the course of development and, in some instances, by cross guarantees between certain Group companies. All bank loans and overdrafts bear interest at commercial rates.

Other creditors, including taxation and social security, are made up as follows:—

As at 31st December	1983 £000	1984 £000	1985 £000	1986 £000	1987 £000
National insurance contributions	19	8	8	7	23
United Kingdom corporation tax	202	147	98	434	1,412
Hire purchase	46	35	25	2	6
Other creditors	65	221	173	156	216
	339	411	304	599	1,657

(f) **Creditors — amounts falling due after more than one year**

As at 31st December	1983 £000	1984 £000	1985 £000	1986 £000	1987 £000
Bank loans and mortgages repayable between one and five years	293	1,685	175	250	1,468
Bank loans and mortgages repayable after five years	233	—	—	187	940
Hire purchase	55	27	7	2	4
	584	1,712	182	439	2,412

Bank loans are secured by specific charges over freehold properties and in some instances by cross guarantees between certain Group companies. Bank loans bear interest at commercial rates, and are generally repayable by quarterly instalments.

(g) **Provision for liabilities and charges**

As at 31st December	1983 £000	1984 £000	1985 £000	1986 £000	1987 £000
Deferred taxation					
Provision made					
Accelerated capital allowances	—	20	—	—	—
Revaluation surpluses	—	11	—	—	—
	—	31	—	—	—

Save as stated above, no provision has been made for deferred taxation as no liability is expected to crystallise in the foreseeable future. An analysis of the potential liability is as follows:—

Year ended 31st December	1983 £000	1984 £000	1985 £000	1986 £000	1987 £000
Capital allowances	439	108	97	95	84
Other short-term timing differences	—	—	—	—	(89)
Revaluation surpluses	45	33	3	215	252
Unrelieved capital losses	—	—	—	(84)	(84)
	484	141	100	226	163

(h) **Pension obligations**

The Group is contracted into the State scheme. In addition, certain Group employees are covered by a contributory pension scheme which provides eligible employees with a pension on retirement.

(i) **Called up share capital**

Year ended 31st December	1983 £000	1984 £000	1985 £000	1986 £000	1987 £000
Ordinary shares of £1 each					
Authorised	614	614	2,000	2,000	2,000
Allotted, called up and fully paid at beginning of the period	614	614	614	947	947
Shares issued during the period	—	—	933	—	10
Shares repurchased during the period	—	—	(600)	—	—
At the end of the period	614	614	947	947	957

(i) By an ordinary resolution of the Company passed on 12th December 1985, the authorised share capital was increased to £2,000,000 by the creation of 1,386,250 ordinary shares of £1 each;

(ii) on 12th December 1985, the Company allotted 95,496 ordinary shares of £1 each for a total consideration of £1,100,000;

(iii) on 12th December 1985, the Company allotted 838,199 ordinary shares of £1 each by way of capitalisation of the sum of £838,199 standing to the credit of the Company's share premium account to the registered holders of the then 709,246 ordinary shares of £1 each in the proportion of 13 new ordinary shares of £1 each for every 11 ordinary shares of £1 each then held;

(iv) on 12th December 1985, the Company purchased 600,000 ordinary shares of £1 each at par. The purchase price was met from the proceeds of the issue referred to in (ii) above; and

(v) on 13th July 1987, the Company allotted 9,474 ordinary shares of £1 each for a total consideration of £50,023 upon exercise of an option.

(j) **Options on Ordinary Shares**

Options have been granted to C. M. Brooks and A. H. Lyons pursuant to the Rockfort Group PLC 1986 Executive Share Option Scheme in respect of 1,457,130 Ordinary Shares of 20p each (as adjusted for the reorganisation of the share capital and the bonus issue referred to in note (p) below), exercisable at a price of 23.33p per share.

(k) **Share premium account**

Year ended 31st December	1983 £000	1984 £000	1985 £000	1986 £000	1987 £000
At beginning of the period	—	—	—	90	90
Allotment of shares (notes (ii) and (v) to paragraph (i) above)	—	—	1,005	—	41
Expenses of share issue	—	—	(77)	—	—
Bonus issue of shares	—	—	(838)	—	—
At end of the period	—	—	90	90	131

(l) **Revaluation reserve**

Year ended 31st December	1983 £000	1984 £000	1985 £000	1986 £000	1987 £000
Property valuation surplus at beginning of the period	—	150	198	218	725
Surplus arising on revaluation in the year	150	73	198	507	—
Provision for deferred taxation	—	(11)	—	—	—
Adjustment arising from disposal of a subsidiary company	—	(33)	(5)	—	—
Surplus arising from release of a provision no longer required	—	19	—	—	—
Transfer on disposal of a property in the period	—	—	(173)	—	—
At end of the period	150	198	216	725	725

The balances shown above represent unrealised revaluation surpluses and are not available for distribution.

(m) **Minority interest**

The minority interest is in respect of redeemable preference shares in a subsidiary company held by a Director (see note (p)).

(n) **Capital expenditure approved:—**

As at 31st December 1987 the Group had the following capital expenditure authorised by the Directors:—

	£000
Contracted for	234
Not contracted for	40
	274

Included within capital expenditure contracted for is £149,000 in respect of a property under construction in Spain.

(o) **Contingent liabilities and financial commitment**

At 31st December 1987, the Company had given guarantees in respect of bank borrowings of subsidiary companies amounting to £945,000.

(p) **Post balance sheet events**

On 23rd June 1988, each of the existing 2,000,000 issued and unissued ordinary shares of £1 each was sub-divided into five Ordinary Shares of 20p each and the authorised share capital of the Company was increased from £2,000,000 to £11,800,000 by the creation of a further 49,000,000 Ordinary Shares of 20p each. On the same date, conditional upon admission of the Ordinary Share capital of the Company to the Official List of The Stock Exchange taking place on or before 15th July 1988;

(i) 14,292,430 Ordinary Shares of 20p each were provisionally allotted to Kleinwort Benson Limited (for itself and as nominee for successful applicants and/or underwriters and their renouncees in the Offer for Sale);

(ii) conditional upon the issue of the 14,292,430 Ordinary Shares of 20p each to Kleinwort Benson becoming effective and the crediting of the premium arising on such issue to the share premium account of the Company, 23,922,975 new Ordinary Shares of 20p each were allotted by way of capitalisation of the sum of £4,784,595 standing to the credit of the Company's share premium account, to the holders of the Ordinary Shares on the register at the close of business on 22nd June 1988 in the proportion of five new Ordinary Shares of 20p each for every Ordinary Share of 20p then held; and

(iii) the redeemable preference shares referred to in note (m) above were redeemed at par, together with the accrued dividend.

Yours truly

Coopers & Lybrand
Chartered Accountants

PART IV Information relating to the profit forecast and estimate of pro forma net tangible assets

1. *Bases and assumptions of the profit forecast*

The Group's profit estimate for the four months ended 30th April 1988 and the estimate of the Group's pro forma net tangible assets at that date, together with its profit forecast for the year ending 31st December 1988, are set out in 'Profit forecast' and 'Estimate of pro forma net tangible assets' in Part I above. The profit estimate and the estimate of pro forma net tangible assets are based on the unaudited management accounts of the Group for the four months ended 30th April 1988. The profit forecast is based on the unaudited management accounts of the Group for the four months ended 30th April 1988 and on the Group's budgets and projections for the last eight months of the year. The profit and net tangible assets estimates and the profit forecast have been prepared using the accounting policies normally adopted by the Group and on the following principal assumptions:

(i) there will be no changes in legislation or governmental regulation or policies which will have a material impact on the Group's business;

(ii) there will be no adverse economic or weather conditions affecting the Group; and

(iii) there will be no serious industrial action or other interruptions to the Group's business outside the Directors' control.

2. Letters

The following are the texts of letters from Coopers & Lybrand, the Reporting Accountants, and Kleinwort Benson, the Financial Advisers, concerning the profit forecast and estimate and the estimate of pro forma net tangible assets:

(a) *Letter from Coopers & Lybrand*

Coopers & Lybrand
Bridewell House
8 Greyfriars House
Reading RG1 1JG
and
Plumtree Court
London EC4A 4HT

The Directors
Rockfort Group PLC
Hurst Grove
Hurst
Reading RG10 0SQ
and
The Directors
Kleinwort Benson Limited
20 Fenchurch Street
London EC3P 3DB

24th June 1988

Dear Sirs,

The profit estimate of Rockfort Group PLC and its subsidiaries (the "Group") for the four months ended 30th April 1988, together with the estimate of pro forma net tangible assets of the Group as at that date and the profit forecast of the Group for the year ending 31st December 1988, for all of which the Directors of Rockfort Group PLC are solely responsible, are set out in Part I of the listing particulars of Rockfort Group PLC dated 24th June 1988. The profit estimate and the estimate of pro *forma net tangible assets are based on management accounts for the* four months ended 30th April 1988 which have not been audited. The profit forecast for the year ending 31st December 1988 is based on unaudited management accounts for the four months ended 30th April 1988 and on the Group's budgets and projections for the eight months to 31st December 1988.

We have reviewed the accounting policies and calculations adopted in arriving at the profit estimate and the estimate of pro forma net tangible assets estimates and the profit forecast. In our opinion the estimates and the forecast, so far as the accounting policies and calculations are concerned, have been properly compiled on the basis of the assumptions made by the Directors of Rockfort Group PLC set out in Part IV of the listing particulars and are presented on a basis consistent with the accounting policies normally adopted by the Group.

Yours truly

Coopers & Lybrand
Chartered Accountants

(b) Letter from Kleinwort Benson

Kleinwort Benson Limited
20 Fenchurch Street
London EC3P 3DB

The Directors
Rockfort Group PLC
Hurst Grove
Hurst
Reading RG10 0SQ

24th June 1988

Dear Sirs,

We refer to the profit estimate of Rockfort Group PLC and its subsidiaries (the "Group") for the four months ended 30th April 1988 together with the estimate of pro forma net tangible assets of the Group as at that date and the profit forecast of the Group for the year ending 31st December 1988, set out in Part I of the listing particulars of Rockfort Group PLC dated 24th June 1988. We have discussed with yourselves and Coopers & Lybrand the accounting policies and assumptions on the bases of which the estimates and forecast have been made. We have also considered the letter of today's date addressed to yourselves and us from Coopers & Lybrand regarding the accounting policies applied and calculations made in preparing the estimates and forecast. We consider that the profit estimate and the estimate of pro forma net tangible assets, and the profit forecast, for all of which you, the Directors, are solely responsible, have been made after due and careful enquiry.

Yours faithfully,
for Kleinwort Benson Limited

M. C. McCarthy
Director

PART V General information

1. The Company

(A) The Company, whose registered office and principal place of business in the United Kingdom is at Hurst Grove, Hurst, Reading RG10 0SQ, was incorporated in England and Wales under the Companies Acts 1948 to 1980 on 7th July 1981 (No. 1572900) as a private company limited by shares. Its name on incorporation was Garan Limited and it had an authorised share capital of £1,000 divided into 1,000 ordinary shares of £1 each. On 12th November 1981 the name of the Company was changed to Rockfort Group Limited. The Company was re-registered as a public limited company on 3rd June 1988 pursuant to the Companies Act 1985 (the principal legislation under which it now operates) at which time its name was changed to its present name.

(B) At 24th June 1985 the authorised share capital of the Company was £613,750 divided into 613,750 ordinary shares of £1 each all which had been issued fully paid or credited as fully paid. Since then, there have been the following changes in the authorised and issued share capital of the Company:

(i) by an ordinary resolution of the Company passed on 12th December 1985 the authorised share capital was increased to £2,000,000 by the creation of 1,386,250 ordinary shares of £1 each;

(ii) on 12th December 1985 the Company allotted 95,496 ordinary shares of £1 each for a total consideration of £1,100,000;

(iii) on 12th December 1985 the Company allotted 838,199 ordinary shares of £1 each by way of capitalisation of the sum of £838,199 standing to the credit of the Company's share premium account to the registered holders of the then 709,246 ordinary shares of £1 each in the proportion (as nearly as may be) of 13 new ordinary shares of £1 each for every 11 ordinary shares of £1 each then held;

(iv) on 12th December 1985 the Company purchased 600,000 ordinary shares of £1 each at par. The purchase price was met from the proceeds of the issue referred to in paragraph 1(B)(ii) above;

(v) on 13th July 1987 the Company allotted 9,474 ordinary shares of £1 each for a total consideration of £50,023 which was paid in cash. The allotment was made pursuant to the *exercise of an option*; and

(vi) by ordinary resolutions of the Company passed on 23rd June 1988, the existing 2,000,000 issued and unissued ordinary shares of £1 each were sub-divided into 10,000,000 Ordinary Shares of 20p each and the authorised share capital of the Company was increased from £2,000,000 to £11,800,000 by the creation of a further 49,000,000 Ordinary Shares. On the same date, and pursuant to resolutions of the Directors (or a duly authorised committee of the Directors) passed on the same date in accordance with the authorities referred to in paragraph 3 below, conditionally upon Admission taking place on or before 15th July 1988, 14,292,430 Ordinary Shares were provisionally allotted to Kleinwort Benson and, conditional on such shares being issued to Kleinwort Benson (for itself and as nominee for successful applicants and/or underwriters and their renouncees in the Offer) and the share premium arising on such issue being *credited to the share premium* account of the Company, a further 23,922,975 Ordinary Shares were allotted by way of capitalisation of the sum of £4,784,595 standing to the credit of the Company's share premium account to the holders of the 4,784,595 Ordinary Shares on the register at the close of business on 22nd June 1988 in the proportion of five new Ordinary Shares for every Ordinary Share then held.

(C) *Pursuant to the Offer for Sale Agreement* referred to in paragraph 8 below, upon Admission 14,292,430 Ordinary Shares will be issued to Kleinwort Benson for itself and as nominee for successful applicants under the Offer and/or underwriters and their respective renouncees.

2. The subsidiaries

(A) The Company is the holding company of the Group. The subsidiaries of the Company (all of which, except Rockfort Homes, are wholly-owned) are listed below. Each is a private company incorporated in England and Wales with its registered office at Hurst Grove, Hurst, Reading RG10 0SQ (except Duncan Vincent Limited, whose registered office is at 105 London Street, Reading RG1 4LF). Save for Langdown Management Limited and Duncan Vincent Limited, which are each subsidiaries of Rockfort Homes, and Rockfort Project Management Services Limited which is a subsidiary of Rockfort Land, each of the subsidiaries is directly owned by the Company.

Name	*Issued and fully paid share capital*	*Date of incorporation*	*Nature of business*
Rockfort Limited	100 ordinary shares of £1 each	12th July 1973	Property development
Rockfort Land Limited	1,340 ordinary shares of £100 each 1,340 deferred shares of £100 each	11th November 1977	Property development
Rockfort Estates Limited	500 ordinary shares of £1 each	23rd June 1978	Dormant
Woodley Haulage Company Limited	2 ordinary shares of £1 each	7th June 1979	Dormant
Rockfort Investments Limited	1,000 ordinary shares of £1 each	11th March 1981	Investment
Rockfort Homes Limited	879,517 ordinary shares of £1 each 330,000 redeemable preference shares of £1 each	6th November 1981	Residential property development

ROCKFORT

Name	Issued and fully paid share capital	Date of incorporation	Nature of business
Langdown Management Limited	2 ordinary shares of £1 each	1st March 1982	Property development
Rockfort Developments Limited	100 ordinary shares of £1 each	3rd May 1985	Dormant
Rockfort Trustees Limited	2 ordinary shares of £1 each	15th August 1986	Trustee
Duncan Vincent Limited	2 ordinary shares of £1 each	8th December 1986	Estate agents
Rockfort Project Management Services Limited	2 ordinary shares of £1 each	21st May 1987	Project managers

(B) On 20th July 1987 Rockfort Homes allotted 330,000 redeemable preference shares of £1 each to C. M. Brooks, a Director, at par for cash. On the same day Rockfort Homes allotted a further 878,517 ordinary shares of £1 each in its capital to the Company at par for cash. Each such allotment was made pursuant to the terms of the Subscription Agreement dated 20th July 1987, brief particulars of which are given in paragraph 15 below. It has been agreed that the redeemable preference shares will be redeemed, conditional upon the Offer for Sale Agreement referred to in paragraph 8 below becoming wholly unconditional. Pursuant to an agreement dated 24th June 1988 (material contract (iii) below), C. M. Brooks has agreed to purchase from R. G. Smee 321,500 Ordinary Shares at the Offer Price, conditional as aforesaid. The 878,517 issued ordinary shares of £1 each in Rockfort Homes are all held by the Group.

3. Share capital

(A) Pursuant to a special resolution of the Company passed at an Extraordinary General Meeting of the Company on 23rd June 1988:

(i) the Directors were generally and unconditionally authorised, pursuant to section 80 of the Companies Act 1985, to allot relevant securities (within the meaning of the said section 80) up to an aggregate nominal amount equal to the authorised but unissued share capital of the Company as increased by the resolution referred to in sub-paragraph 1(B)(vi) above, such authority to expire at the conclusion of the Annual General Meeting of the Company next following the passing of such resolution (save that the Company may at any time prior to the expiry of such authority make an offer or agreement which would or might require relevant securities to be allotted after the expiry of such authority and the Directors may allot relevant securities in pursuance of such offer or agreement as if such authority had not expired);

(ii) the Directors were given power, pursuant to section 95 of the Companies Act 1985 (with such power expiring at the conclusion of the next Annual General Meeting of the Company) to allot equity securities (as defined in section 94(2) of the said Act) for cash pursuant to the authority referred to in sub-paragraph (i) above as if section 89 of the said Act did not apply to such allotment, in respect of up to 14,442,430 Ordinary Shares (including those to be subscribed pursuant to the Offer for Sale Agreement referred to in paragraph 8 below) and, additionally, where it is in the opinion of the Directors necessary or expedient so to do, in connection with a rights issue. The Company may, before the expiry of such authority, make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such offer or agreement as if such power had not expired.

The Company remains subject to the continuing obligations of The Stock Exchange with regard to the issue of securities for cash and the provisions of section 89 of the Companies Act 1985 (which confers on shareholders rights of pre-emption in respect of the allotment of equity securities which are, or are to be, paid up in cash) apply to the balance of the authorised but unissued share capital of the Company which is not the subject of the disapplication referred to above.

(B) Save as disclosed in paragraphs 1 and 2 above, in the three years preceding the date of this document there has been no issue of share or loan capital of the Company and no material issue of share or loan capital of any subsidiary (otherwise than intra-Group issues by wholly-owned subsidiaries and pro rata issues by partly-owned subsidiaries) for cash or other consideration and no commissions, discounts, brokerages or other special terms (except pursuant to the Offer for Sale Agreement referred to in paragraph 8 below) have been granted by the Company or any subsidiary in connection with the issue, conversion or sale of any such capital.

(C) Save in connection with the Rockfort Group PLC 1986 Executive Share Option Scheme, or pursuant to the Offer, no share or loan capital of the Company or any subsidiary is proposed to be issued or is under option or is agreed, conditionally or unconditionally, to be put under option.

(D) Following the Offer 16,000,000 Ordinary Shares will remain unissued of which 2,358,545 are reserved for issue under the Rockfort Group PLC 1986 Executive Share Option Scheme.

(E) Save for Ordinary Shares reserved for issue under the Rockfort Group PLC 1986 Executive Share Option Scheme, or pursuant to or in connection with the Offer, no material issue of shares (other than to shareholders pro rata to their shareholdings) will be made by the Company within one year of the date of this document without the prior approval of the Company in General Meeting.

(F) Following the Offer, Rockfort Trustees Limited, a wholly-owned subsidiary of the Company, will hold 843,180 Ordinary Shares in the Company (having an aggregate nominal value of £168,636) as trustee of a trust created for the benefit of employees generally.

4. Memorandum and Articles of Association

The Memorandum of Association of the Company provides that the Company's principal objects are to carry on the business of land and property developers and dealers and to act as, and to perform the functions of, a holding company. The objects of the Company are set out in full in Clause 4 of the Memorandum of Association, which is available for inspection at the address specified in paragraph 18 below.

The Articles of Association of the Company contain provisions, *inter alia*, to the following effect:

(A) *Voting*

Subject to disenfranchisement in the event of non-compliance with a statutory notice requiring disclosure as to beneficial ownership, and subject to any special terms as to voting on which any shares may have been issued or may be held (no shares having been issued subject to special terms) and provided that no calls or other monies are due in respect of shares held by him, every member present in person shall on a show of hands have one vote and every member present in person or by proxy shall on a poll have one vote for every 20p nominal of share capital of the Company held by him.

(B) *Variation of rights and alteration of capital*

(i) All or any of the rights or privileges attached to any class of share may, subject to the Companies Act 1985, be varied or abrogated in such manner (if any) as may be provided by such rights or, in the absence of such provision, either with the consent in writing of the holders of at least three fourths of the nominal amount of the issued shares of that class or with the sanction of an Extraordinary Resolution (as defined) passed at a separate meeting of the holders of the issued shares of that class, but not otherwise.

(ii) The Company may by ordinary resolution increase its share capital, consolidate all or any of its shares into shares of a larger amount, sub-divide its shares into shares of a smaller amount and cancel any shares not taken or agreed to be taken by any person.

(iii) The Company may, subject to the provisions of the Companies Act 1985, by special resolution reduce its share capital, any capital redemption reserve and any share premium account.

(C) *Transfer of shares*

The instrument of transfer of a share shall be in the usual common form or such other form as shall be approved by the Directors and must be lodged at the registered office of the Company for the time being or at such other place as the Directors may appoint. The instrument of transfer of a share shall be executed by or on behalf of the transferor and, unless the share is fully paid, by or on behalf of the transferee. The Directors may in their absolute discretion and without assigning any reason therefor refuse to register any transfer of shares unless:

(i) it is in respect of a fully paid share;

(ii) it is in respect of a share over which the Company does not have a lien;

(iii) it is in respect of only one class of shares;

(iv) it is in favour of not more than four joint holders as transferees; and

(v) it is lodged at the registered office of the Company or such other place as the Directors may determine, accompanied by the relevant share certificate(s) and such other evidence as the Directors may reasonably require to prove the title of the transferor and due execution of the transfer by him or, if the transfer is executed by some other person on his behalf, the authority of that person so to do.

The Articles do not contain any pre-emption rights. The Ordinary Shares are in registered form.

(D) *Directors*

(i) A Director shall not vote or be counted in the quorum in respect of any contract, arrangement, transaction or any other proposal whatsoever in which he has any material interest other than as a holder of shares in, or debentures or other securities of, the Company. However, a Director shall be entitled to vote and be counted in the quorum in circumstances where the resolution relates:

(a) to the giving to him of any guarantee, security or indemnity in respect of money lent to or an obligation incurred by him at the request of or for the benefit of the Company or any of its subsidiaries;

(b) to the giving to a third party of any guarantee, security or indemnity in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director has assumed responsibility in whole or part and whether alone or jointly with others under a guarantee or indemnity or by the giving of security;

(c) to a proposal concerning an offer of shares or debentures or other securities of or by the Company or of any of its subsidiaries for subscription, purchase or exchange in which he is or is to be interested as a participant in the underwriting or sub-underwriting thereof;

(d) to a contract, arrangement, transaction or other proposal concerning any other company in which he is interested, directly or indirectly, and whether as an officer or shareholder or otherwise howsoever, provided that he is not the holder of or beneficially interested (directly or indirectly) in one per cent. or more of any class of the equity share capital of such company or of the voting rights available to the members of such company;

(e) to any contract, arrangement, transaction or other proposal concerning the adoption, modification or operation of a superannuation fund or retirement benefit scheme under which he may benefit and which relates both to employees of the Company and Directors or which has been approved, or is conditional upon approval, by the Board of Inland Revenue for taxation purposes and does not accord to any Director as such any privilege or advantage not accorded to the employees to whom such scheme or fund relates; or

(f) to any contract, arrangement, transaction or other proposal concerning the adoption, modification or operation of any scheme for enabling employees including full-time executive Directors of the Company or any subsidiary to acquire shares in the Company or to any arrangement for the benefit of employees of the Company or any subsidiary under which the Director benefits in a similar manner to employees.

(ii) A Director shall not vote or be counted in the quorum on any resolution concerning his own appointment or the terms of such appointment or any variation thereof.

(iii) The total fees available to be distributed to the Directors of the Company shall be £50,000 or such annual sum as is decided on by the Company in General Meeting and may be divided among the Directors in such manner as they may determine.

(iv) The remuneration of any executive Director of the Company shall, subject as provided in any contract, be such as the Directors may from time to time determine, and may include the making of provision for the payment to him, his widow or other dependants, of a pension on retirement from the office of employment to which he is appointed and for the participation in pension, life assurance and other benefits, or may be upon such other terms as the Directors determine.

(v) The Directors shall be entitled to be repaid all reasonable travelling, hotel and other expenses properly incurred by them respectively in or about the performance of their duties as Directors including any expenses properly incurred in attending meetings of the Board or of Committees of the Board or general meetings and if in the opinion of the Directors it is desirable that any of their number should go or reside abroad or make special journeys or perform any special service on behalf of the Company or its business, such Director or Directors may be paid such reasonable additional remuneration and expenses therefor as the Directors may from time to time determine.

(vi) A Director shall be capable of being appointed or re-elected a Director despite having attained the age of seventy or any other age and no special notice shall be required in connection with the appointment of any such Director, nor shall he be required to retire by reason of his having attained that or any other age.

(vii) A Director shall not require a share qualification.

(viii) Unless otherwise determined by the Company in General Meeting, the number of Directors shall not be less than two.

(E) *Borrowing powers*

The Directors may exercise all the powers of the Company to raise or borrow money and to mortgage or charge its undertaking, property and uncalled capital or any part thereof and, subject to the Companies Act 1985, to issue debentures, debenture stock or other securities, whether outright or as collateral security for any debt, liability or obligation of the Company or of any subsidiary or third party. The Directors shall restrict the borrowings of the Company and its subsidiaries so as to secure that the aggregate amount (after adjustments provided for in the Articles of Association) at any one time owing by the Group in respect of monies borrowed, determined in accordance with the Articles of Association, shall not at any time (without prior approval by the Company in General Meeting) exceed a sum equal to three times the aggregate of the nominal amount paid up on the share capital of the Company for the time being in issue and the amounts standing to the credit of the consolidated reserves of the Group (determined in accordance with the Articles of Association).

(F) *Dividends and distribution of assets on liquidation*

Subject to any preferential or special rights attaching to any shares issued by the Company in the future, the holders of the Ordinary Shares are entitled *pari passu* amongst themselves, but in proportion to the number of shares held by them and to the amounts paid up or credited as paid up thereon, to share in the whole of the profits of the Company paid out as dividends. The Articles do not alter the entitlement of the holders of Ordinary Shares to share in the whole of any surplus in the event of the liquidation of the Company.

(G) *Unclaimed dividends*

Any dividend unclaimed after a period of 12 years from its date of declaration shall be forfeited and shall revert to the Company.

(H) *Pensions and gratuities*

The Directors may (by establishment or maintenance of all kinds of schemes, funds and trusts or otherwise) provide or pay pensions, annuities, gratuities or superannuations or other allowances or benefits to any director, ex-director, employee or ex-employee of the Company or any of its subsidiaries or any allied or associated company or any wife, widow, children, or other relatives or dependants of any such person.

(I) *Untraced shareholders*

The Company may sell any shares in the Company of a member who is untraceable if, during a period of 12 years, no cheque or warrant addressed to the member has been cashed and the Company gives three months' notice in a leading London daily newspaper and a newspaper circulating in the area of the member's registered address of its intention to sell and also gives notice to The Stock Exchange accordingly.

5. Directors' and other interests

(A) For the purposes of sections 324, 325 and 328 of the Companies Act 1985, the interests of the Directors in the Ordinary Shares of the Company (all of which are beneficial except as set out below) are at present (on the assumption that the resolutions referred to in paragraph 1(B)(vi) become unconditional) and immediately following the Offer will be as follows:—

	At present	Following the Offer	Options (Note (iii))
	No. of Ordinary Shares (%)	No. of Ordinary Shares (%)	No. of Ordinary Shares (%)
R.G. Smee (Note (i))	19,520,370 (68%)	18,091,870 (42.1%)	371,424
M.G. Toh	900,000 (3.1%)	800,000 (1.9%)	185,712
C.M. Brooks (Note (ii))	—	321,500 (0.7%)	1,271,408
R.M. Mayes-Smith	—	—	— (Note (iv))

Notes:

(i) The Ordinary Shares in which R. G. Smee is interested include 3,135,000 Ordinary Shares held by or on behalf of trustees of settlements made by him.

(ii) The Ordinary Shares in which C. M. Brooks is interested comprise Ordinary Shares which he has agreed to purchase from R. G. Smee at the Offer Price conditionally upon the Offer for Sale Agreement referred to in paragraph 8 below becoming wholly unconditional.

(iii) The options held by R. G. Smee and M. G. Toh are exercisable between 23rd June 1991 and 22nd June 1998 at the Offer Price. The option held by C. M. Brooks is exercisable between 5th October 1990 and 4th October 1997 at 23.33p per Ordinary Share in respect of 857,130 Ordinary Shares and between 23rd June 1991 and 22nd June 1998 at the Offer Price in respect of 214,278 Ordinary Shares. These options have all been granted under the provisions of the Rockfort Group PLC 1986 Executive Share Option Scheme.

(iv) It is intended that, following the Offer, an option will be granted to R. M. Mayes-Smith over 25,000 Ordinary Shares at the Offer Price, under the provisions of the Rockfort Group PLC 1986 Executive Share Option Scheme which allow for the grant of non-approved options.

(B) No Director will apply for Ordinary Shares in the Offer.

(C) R. G. Smee has created The Smee Foundation, a charitable trust to assist the education of and to benefit young people in the Berkshire area. Once the restrictions on the disposal of Ordinary Shares referred to in paragraph 8(c) below have expired, Mr Smee intends to transfer approximately 280,000 Ordinary Shares in the Company to the trustees of The Smee Foundation.

(D) Save as disclosed in this paragraph and in paragraph 2 above, none of the Directors has any interest in the share capital of the Company or of any of its subsidiaries.

(E) Following the Offer, 4,950,000 Ordinary Shares will be held by Kleinwort Benson Investment Trust Limited (a wholly-owned subsidiary of Kleinwort Benson), representing 11.5 per cent. of the Company's enlarged issued share capital. Save for such shareholding and for the shareholdings set out in sub-paragraph (A) above, the Directors are not aware of any shareholding which represents or, following the Offer, will represent five per cent. or more of the Company's issued share capital or of any other persons who directly or indirectly, jointly or severally, exercise or could exercise control over the Company.

(F) Save as disclosed herein, no Director has any interest in any transactions which are or were unusual in their nature or conditions or significant to the business of the Group and which (i) were effected by the Company during the current or immediately preceding financial year, or (ii) were effected by the Company during an earlier financial year and remain in any respect outstanding or unperformed.

6. Directors' service agreements

(A) On 23rd June 1988, the following executive Directors entered into service agreements with the Company, each of which is terminable by the Company giving not less than three years' prior written notice or by the Director giving not less than six months' prior written notice:—

Name	Nature of appointment	Annual salary (inclusive of Director's fees)
R.G. Smee	Chairman and Managing Director	£130,000
M.G. Toh	Group Finance Director	£ 65,000
C.M. Brooks	Managing Director, Rockfort Homes	£ 75,000

In addition to the annual salary referred to above, each Director may be entitled to a discretionary bonus of an amount to be decided by a committee comprising R. G. Smee (save in the case of his own discretionary bonus), R. M. Mayes-Smith and A. J. M. Huntley. R. G. Smee will be entitled to a maximum bonus equivalent to one per cent. of the Company's net profits before tax.

(B) Save as disclosed above, there are no existing or proposed service agreements between any of the Directors and the Company or any of its subsidiaries.

(C) The aggregate remuneration paid (including the discretionary bonuses referred to above) and benefits in kind granted to the Directors by the Group during the year ended 31st December 1987 amounted to £270,803 and the aggregate amount payable to the Directors under the arrangements in force at the date of this document (excluding discretionary bonuses) are estimated to amount to £335,000 during the year ending 31st December 1988.

7. The share option scheme

On 15th December 1986, the Company adopted the Rockfort Group PLC 1986 Executive Share Option Scheme (the "scheme") the principal features of which, as from the date of Admission will, subject to Inland Revenue approval of certain amendments, be as follows:—

(A) The scheme will provide for the grant to certain Directors and employees of the Group of options to acquire Ordinary Shares. Although it has been approved by the Inland Revenue under the Finance Act 1984, it contains provision for the grant of non-approved options as well as approved ones. Options may be granted either by the Company or by the trustees of a trust established by the Company for this purpose.

(B) Any Director or employee who is required to devote to the service of the Group substantially the whole of his working time, and in any event at least 20 hours a week (25 hours in the case of a Director), and who is not within two years of retirement, will be eligible to participate in the scheme at the invitation of the Directors.

(C) Options may be granted under the scheme within the period of six weeks from Admission, within four weeks from the date on which the amendments to the scheme are approved by the Inland Revenue and within the period of six weeks from the dealing day following the announcement by the Company of its annual or half-yearly results. However, options may not be granted later than ten years after Admission. No price will be payable for the grant of an option. Options will not be transferable.

(D) The price payable for Ordinary Shares under an option will be determined by the Directors or the trustees, but will not be less than the middle-market quotation of Ordinary Shares as derived from The Stock Exchange Daily Official List on the first dealing day falling within the 21 days ending with the date of grant of the option or, if later, on the dealing day following the last announcement by the Company of its results. The price will not in any event be less than the nominal value of an Ordinary Share, except where the option is granted by the trustees.

(E) The scheme will be subject to the following limits:—

(i) the total number of Ordinary Shares which may be issued under the scheme may not exceed 4,300,000 (representing ten per cent. of the ordinary share capital of the Company in issue on Admission), but this number may be adjusted as mentioned in sub-paragraph (H) below;

(ii) the number of Ordinary Shares which may be made available for issue in any ten-year period under the scheme and any other executive share option scheme adopted by the Company may not exceed five per cent. of the ordinary share capital of the Company in issue from time to time;

(iii) the number of Ordinary Shares which may be made available for issue in any three-year period under the scheme and any other employees' share scheme adopted by the Company may not exceed three per cent. of the ordinary share capital of the Company in issue from time to time;

(iv) the number of Ordinary Shares which may be made available for issue in any ten-year period under the scheme and any other employees' share scheme adopted by the Company may not exceed ten per cent. of the ordinary share capital of the Company in issue from time to time;

(v) the total subscription price payable for Ordinary Shares under options granted to any one employee or Director under the scheme and any other executive share option scheme adopted by the Company may not in any ten-year period exceed four times the higher of his rate of annual remuneration and his actual remuneration for the last year as at the date of grant of any option.

For the purposes of the limits in (ii) to (v) above, options granted before Admission otherwise than at the Offer Price will be disregarded.

(F) An option granted under the scheme may not normally be exercised earlier than three years after its grant, and may not in any event be exercised more than ten years (seven years if non-approved) after its grant. Furthermore, an option may not normally be exercised unless there is a real growth in the Company's earnings per share over a three-year period by reference to the retail prices index.

However, if an option holder dies while in the employment of the Group, his personal representatives may exercise his option during the following twelve months. Early exercise of an option is also allowed if an option holder ceases to be employed by the Group by reason of injury, disability, redundancy or retirement. If an option holder ceases to be employed by the Group for any other reason, his option may not be exercised at all unless the Directors so permit.

Special provisions apply in the exceptional circumstances of a takeover, reconstruction or winding up of the Company, and such provisions may permit the early exercise of options; in the case of a winding up, for example, options will be exercisable for one month after notification thereof by the Directors and will then lapse.

Where a non-approved option is exercised, the Directors may determine that the option holder's entitlement may be satisfied in whole or in part by a payment equal to the benefit he would have obtained had he received Ordinary Shares in the usual way, and the payment may be applied on his behalf in subscribing for or otherwise acquiring Ordinary Shares at their middle-market quotation on the dealing day last preceding the date of exercise.

(G) All Ordinary Shares allotted under the scheme will rank pari passu in all respects with the Ordinary Shares for the time being in issue, save as regards any rights attaching to such Ordinary Shares by reference to a record date prior to the date of allotment. Application will be made to the Council of The Stock Exchange for Ordinary Shares so allotted to be admitted to the Official List.

(H) In the event of any increase or variation of the share capital of the Company (namely upon a capitalisation or rights issue, sub-division, consolidation or reduction), the Directors may make such adjustments as they consider appropriate to the total number of Ordinary Shares subject to the scheme as mentioned in sub-paragraph (E) (i) above, the number of Ordinary Shares subject to any option and the price payable for Ordinary Shares under any option. Except in the case of a capitalisation issue, any such adjustment must be confirmed in writing by the auditors of the Company to be in their opinion fair and reasonable.

(I) The Directors may at any time make any amendment to the scheme, provided that the prior approval of the Company in General Meeting is obtained in the case of any amendment to the advantage of option holders, to the provisions concerning the persons eligible to participate, the periods during which options may be granted and exercised, the price payable for the grant of options, the price payable for Ordinary Shares on the exercise of options, the transferability of options, the limits referred to in paragraph (E) above, the rights attaching to Ordinary Shares issued pursuant to options, variations of capital and alterations. However, this proviso will not apply if it is necessary or desirable to amend the scheme in order to obtain Inland Revenue approval, to comply with any statutory provision, or to take account of a takeover, reconstruction or winding-up of the Company.

8. Offer for Sale arrangements

(A) By an agreement (the "Offer for Sale Agreement") dated 24th June 1988, (material contract (iv) in paragraph 15 below), Kleinwort Benson has agreed, conditionally on the resolutions referred to in *paragraph l(B)(vi) above being passed and becoming unconditional*, the *issue of 14,292,430 Ordinary* Shares to Kleinwort Benson (for itself and as nominee for successful applicants in the Offer and/or underwriters and their renouncees) being effected, the crediting of the premium arising on such issue to the share premium account of the Company, the Offer for Sale Agreement not being terminated by Kleinwort Benson prior to Admission, and Admission taking place not later than 15th July 1988, as agent for the persons referred to in sub-paragraph (b) below ("the Vendors") to procure purchasers for, or failing which, to purchase Ordinary Shares from the persons and in the proportions set out in sub-paragraph (B) below and as agent for the Company to procure subscribers for, or failing which to subscribe itself, for a total of 17,642,330 Ordinary Shares in each case at 140p per share and, as agent as aforesaid, to offer for sale or subscription the aggregate of 17,642,330 Ordinary Shares to the public by means of the Offer at the Offer Price of 140p per share.

(B) The Vendors under the Offer for Sale Agreement and the number of Ordinary Shares being sold by each of them are:

Vendor	*No. of Ordinary Shares to be sold*
R. G. Smee	1,107,000
M.G. Toh	100,000
Kleinwort Benson Investment Trust Limited	2,142,900

(C) Under the Offer for Sale Agreement, the Vendors, the Directors and the Company have given certain general warranties and indemnities to Kleinwort Benson and the Vendors have also given an indemnity to the Company and its subsidiaries regarding taxation (including capital transfer taxation). All the existing shareholders have also undertaken with Kleinwort Benson not to sell, save in certain limited circumstances, any of the Ordinary Shares in the Company retained by them following the Offer before the publication of the preliminary announcement of Rockfort's results for the year ending 31st December 1988.

(D) The Company and the Vendors will pay commissions to Kleinwort Benson at the rate of 2 per cent. on the value of the Ordinary Shares offered by Kleinwort Benson for subscription and sale respectively at the Offer Price. Out of these commissions, Kleinwort Benson will pay to sub-underwriters' commission at the rate of 1¼ per cent. of the value of the Ordinary Shares being offered at the Offer Price and to Phillips & Drew Securities Limited commission at the rate of ¼ per cent. of the value of the Ordinary Shares in respect of which underwriting participations are procured by them. The Company has agreed to pay all other costs, charges and expenses relating or incidental to the Offer and the application for Admission including The Stock Exchange Listing fee, the fees and expenses of the Reporting Accountants and Reporting Property Valuers, the charges of the Receiving Bankers and Registrars, its own and Kleinwort Benson's legal expenses and the costs of printing, advertising and circulating this Offer, together with a fee of £100,000 to Kleinwort Benson. Stamp duty reserve tax on transfer of the Ordinary Shares offered for sale on behalf of the Vendors at the rate of 50p per £100 (or part thereof) will be met by the Vendors.

(E) The total costs, charges and expenses payable by the Company in connection with the Offer are estimated to amount to £1.35 million (exclusive of VAT). The total remuneration of Kleinwort Benson and Phillips & Drew Securities Limited and sub-underwriters, including underwriting margins and commissions, amounts to £560,000 (exclusive of VAT). The estimated cash proceeds receivable by the Company, net of fees, commissions and expenses payable, are estimated to amount to £18.66 million.

(F) The total amount to be raised by the Offer is £24.7 million.

(G) Preferential consideration will be given to valid applications received on preferential application forms for up to 100,000 Ordinary Shares from full-time employees of the Group at the close of business on 24th June 1988 (other than Directors). Each such employee may apply on a preferential basis for a minimum of 300 Ordinary Shares. To the extent that such employees make preferential applications for more than the number of Ordinary Shares available, such applications may be scaled down. Individual preferential applications may be accepted in whole or in part, or scaled down, as the Directors may determine. Excess preferential applications will be treated as applications on public application forms.

9. Premises

The principal establishment of the Group is Hurst Grove, Hurst, Reading details of which may be found in the Property valuers' report in Part II of this document.

10. Taxation

(A) The Directors have been advised that following completion of the Offer, the Company is not expected to be a close company as defined in the Income and Corporation Taxes Act 1988.

(B) Clearances under provisions now re-enacted as Schedule 19 to the Income and Corporation Taxes Act 1988 have been obtained for the Company and its principal commercial property development company, Rockfort Land Limited, in respect of all accounting periods to 31st December 1987. The Directors have been advised that apportionments of income under the provisions referred to above are unlikely to be relevant.

(C) Clearance has been received from the Inland Revenue under the provisions of section 707 of the Income and Corporation Taxes Act 1988 in respect of the transactions involved in the Offer.

(D) Under current United Kingdom taxation legislation, when paying a dividend, no tax will be withheld by the Company but the Company will generally have to account to the Inland Revenue for Advance Corporation Tax ("ACT") at a rate which is currently 1/3 of the dividend paid. United Kingdom resident shareholders are entitled to a tax credit in relation to the dividend received of an amount equal to the ACT paid by the Company in respect of such dividend. In the case of an individual United Kingdom resident shareholder, the dividend and the associated tax credit are included in calculating the shareholder's total income for United Kingdom taxation purposes. The tax credit is set against the shareholder's overall income tax liability. A repayment of tax from the Inland Revenue may be claimed by the shareholder to the extent that, because of personal allowances or other reliefs, his tax credits exceed his overall income tax liability. United Kingdom resident corporate shareholders are not liable to United Kingdom taxation on dividends received and they may use the tax credit to set against their own liability to account for ACT on dividends declared by them.

Whether holders of shares in the Company who are resident in countries other than the United Kingdom are entitled to a payment from the Inland Revenue of a proportion of the tax credit in respect of dividends on such shares, depends in general upon the provisions of any applicable double tax convention or agreement which exists between such countries and the United Kingdom, or whether the shareholder is a Commonwealth citizen or falls into certain other categories. Persons who are not resident in the United Kingdom, should consult their own tax advisers on the possible applicability of such provisions, the procedure for claiming payment and what relief or credit may be claimed in the jurisdiction in which they are subject to taxation.

The above comments are intended as a general guide to the current position. Any person who is in any doubt as to his taxation position should consult an appropriate professional adviser.

(E) Information concerning liability to stamp duty and stamp duty reserve tax in connection with the Offer is set out in the section headed "Basis of Acceptance and Dealing Arrangements" in Part VI of this document.

11. Auditors and financial information

(A) Coopers & Lybrand, Chartered Accountants, of Bricewell House, 6 Greyfriars Road, Reading RG1 1JG, have audited the accounts of the Company for the three financial years ended 31st December 1987.

(B) The financial information concerning the Group contained in this document does not amount to full individual accounts within the meaning of section 254 of the Companies Act 1985. Full accounts of the Company and its subsidiaries for each financial year to which the financial information relates and on which the auditors gave unqualified reports, have been delivered to the Registrar of Companies.

12. Material changes

Save as disclosed herein, there has been no significant change in the financial or trading position of the Group since 31st December 1987.

13. Working capital

The Directors consider that having regard to the bank facilities available and the net proceeds of the Offer receivable by the Company, the Group has sufficient working capital for its present requirements.

14. Litigation

Neither the Company nor any of its subsidiaries is engaged in any litigation or arbitration proceedings and no litigation or arbitration proceedings are pending or threatened against the Company or any of its subsidiaries which may have, or have had during the 12 months prior to the date hereof, a significant effect on the Group's financial position.

15. Material contracts

The following contracts, not being contracts in the ordinary course of business, have been entered into by the Company and its subsidiaries within the two years immediately preceding the date of this document and are, or may be, material:—

(i) an agreement dated 23rd October 1986 and made between Rockfort Homes (1) and C.M. Brooks, J.H. Attewell, E.S. Scotchbrook and G. Broadhurst (the "Scotchbrooks Vendors") (2) pursuant to which Rockfort Homes agreed to purchase the whole of the issued share capital of Scotchbrooks Limited for £1,600,000. Rockfort Homes has released the Scotchbrooks Vendors from the obligation to complete the contract in consideration of the sum of £200,000;

(ii) an agreement dated 20th July 1987 and made between the Company (1), Rockfort Homes (2) and C. M. Brooks (3) pursuant to which the Company and Mr. Brooks made the subscriptions referred to in paragraph 2(B) above;

(iii) an agreement dated 24th June 1988 and made between C. M. Brooks (1), Rockfort Homes (2) and R. G. Smee (3) pursuant to which Rockfort Homes has agreed, conditionally upon the Offer for Sale Agreement referred to in paragraph 8 above becoming wholly unconditional to redeem the 330,000 redeemable preference shares of £1 each in Rockfort Homes registered in the name of C. M. Brooks at par together with dividend accrued thereon and, conditionally as aforesaid, R. G. Smee agreed to sell and C. M. Brooks agreed to purchase 321,500 Ordinary Shares in the Company at the Offer Price; and

(iv) the Offer for Sale Agreement referred to in paragraph 8(A) above.

16. Consents

(A) Jones Lang Wootton have given and have not withdrawn their written consent to the issue of this document with the inclusion herein of their report set out in Part II and the references thereto and to themselves in the form and context in which they appear.

(B) Coopers & Lybrand have given and have not withdrawn their written consent to the issue of this document with the inclusion herein of their report set out in Part III and their letter set out in Part IV and with the references thereto and to themselves in the form and context in which they appear.

(C) Kleinwort Benson has given and has not withdrawn its written consent to the issue of this document with the inclusion herein of its letter set out in Part IV and with the references thereto and to itself in the form and context in which they appear.

17. General

(A) The Directors are of the opinion that the Group carries reasonable insurance cover for all major risks facing the Group which would be expected to be the subject of insurance cover.

(B) A. H. Lyons has a service agreement with Rockfort expiring in November 1989 at an annual salary of £60,000 plus discretionary bonus.

ROCKFORT

(C) The Company has entered into an agreement with Richard Ellis and A. J. M. Huntley, pursuant to which Mr. Huntley will act as consultant to the Group at an annual fee of £7,500 payable to Richard Ellis. The Company has also entered into an agreement with Kleinwort Benson and R. M. Mays-Smith, pursuant to which Mr. Mays-Smith will act as a non-executive Director of the Company for a period expiring in 1990 at an annual fee of £10,000 (excluding VAT and expenses).

(D) The Company has taken out key-man insurance in respect of R.G. Stoss for £1,000,000 and in respect of M.G. Toh, C.M. Brooks and A. H. Lyons for £250,000 each.

(E) The Offer Price of 140p represents a premium of 120p per Ordinary Share over the nominal value of the Ordinary Shares.

(F) The Offer is being underwritten in full by Kleinwort Benson.

(G) It is expected that Letters of Acceptance will be posted on 8th July 1988 to successful applicants under the Offer and that the Ordinary Shares will be admitted to the Official List and dealings therein will commence on 11th July 1988.

18. Documents for inspection

Copies of the following documents may be inspected at the offices of Clifford Chance, Royex House, Aldermanbury Square, London EC2V 7LD during usual business hours on any weekday, Saturdays and public holidays excepted, for a period of 14 days following the date of publication of this document:—

(i) the Memorandum and Articles of Association of the Company;
(ii) the audited consolidated accounts of the Company and its subsidiaries for the two years ended 31st December 1987;
(iii) the Property valuers' report set out in Part II;
(iv) the Accountants' report set out in Part III and their statement of adjustments relating thereto;
(v) the letters relating to the profit and pro forma net tangible assets estimates and the profit forecast set out in Part IV;
(vi) the service agreements of the Directors referred to in paragraph 8 above and of A. H. Lyons referred to in paragraph 17 above;
(vii) the agreements of A. J. M. Huntley and R. M. Mays-Smith referred to in paragraph 17 above;
(viii) the rules of the Rockfort Group PLC 1988 Executive Share Option Scheme;
(ix) the material contracts referred to in paragraph 15 above; and
(x) the written consents referred to in paragraph 16 above.

Dated 24th June 1988.

PART VI Terms and conditions of application

(1) Except where the context otherwise requires, words and expressions defined in the listing particulars dated 24th June 1988 (the "Listing Particulars") with regard to Rockfort Group PLC (the "Company") have the same meanings in these terms and conditions. The Procedure for Application and Basis of Acceptance and Dealing Arrangements sections in Part VI of the Listing Particulars form part of these terms and conditions.

(2) The Ordinary Shares comprised in the Offer consist of 14,292,430 Ordinary Shares ("Subscription Shares") offered for subscription by Kleinwort Benson as agent for the Company and 3,349,900 Ordinary Shares ("Vendors' Shares") offered for sale by Kleinwort Benson as agent for the Vendors. Letters of acceptance representing Subscription Shares will be printed in black and letters of acceptance representing Vendors' Shares will be printed in red.

(3) The contract arising from each acceptance of an application will be conditional upon the whole of the ordinary share capital of the Company, issued and now being issued, being admitted to the Official List of The Stock Exchange by not later than 15th July 1988, and upon the Offer for Sale Agreement referred to in paragraph 8 of Part V of the Listing Particulars becoming unconditional and not being terminated in accordance with its terms.

(4) Kleinwort Benson reserves the right to reject in whole or in part or to scale down any application, and in particular multiple or suspected multiple applications, and to present for payment any cheques or banker's drafts received before the conditions referred to in paragraph (3) above are satisfied. Application moneys received will be kept by National Westminster Bank PLC in a separate bank account. If the conditions referred to in paragraph (3) above are not satisfied or if any application is not accepted in whole or in part or is scaled down, the application moneys or, as the case may be, the balance thereof will be returned (without interest) to the first-named applicant by returning the applicant's(s') cheque(s) or banker's draft(s) or by sending a crossed cheque in favour of the first-named applicant through the post to the address of the first-named applicant at the risk of the person(s) entitled thereto. The right is reserved to reject any application in respect of which the applicant(s)' cheque(s) or banker's draft(s) has/have not been duly met or paid, or has/have been dishonoured or stopped by 1.00 p.m. on Tuesday, 5th July 1988. The right is also referred to reject any application in respect of which the relevant letter of acceptance has been retained pursuant to paragraph (6)(h) below if the applicant's(s') cheque(s) or bankers draft(s) has/have not been duly met or paid, or has/have been dishonoured or stopped by 5.00 p.m. on Thursday, 4th August 1988.

(5) A total of up to 100,000 Ordinary Shares will be reserved in the first instance to meet preferential applications from full-time employees of the Group at the close of business on 24th June 1988 (other than Directors) on the preferential application forms made available to them. Each such employee will be permitted to make only one application on a preferential application form. Any Ordinary Shares not taken up under the preferential arrangements will be made available to satisfy applications on public application forms.

(6) Applications (other than preferential applications) must be made on the accompanying application form. The application by you will, subject to acceptance, constitute an agreement between you, Kleinwort Benson, the Company and the Vendors in the terms set out herein. By completing and delivering an application form, you (as the applicant(s)):

(a) offer to purchase or subscribe for the number of Ordinary Shares specified in your application form (or such smaller number for which the application may be accepted) at the Offer Price on and subject to these terms and conditions and subject to the Listing Particulars and the Memorandum and Articles of Association of the Company;

(b) agree that you will accept such Subscription Shares and/or Vendors' Shares as may be allocated to you in accordance with the provisions of paragraph (k) below and appoint the relevant Vendor as your agent to notify the Board of Inland Revenue of and to pay (or procure Kleinwort Benson to make such notification and payment on such Vendor's behalf) any stamp duty reserve tax at the rate of 50p per £100 (or part thereof) on the consideration therefor at the Offer Price incurred as a result of being allocated Vendors' Shares being sold by such Vendor;

(c) authorise National Westminster Bank PLC to send (a) letter(s) of acceptance for the number of Ordinary Shares for which your application is accepted and/or a crossed cheque for any moneys returnable, by ordinary post, at your risk to the address of the first-named applicant as set out in your application form;

(d) agree that, in consideration of the Company and the Vendors agreeing that they will not prior to 15th July 1988 allot or sell any of the Ordinary Shares which are the subject of the Offer other than by means of the procedures referred to in the Listing Particulars, your application may not be withdrawn until after 15th July 1988 and that this paragraph shall constitute a collateral contract between you and the Company and/or the Vendors (as the case may be) which will become binding upon despatch by post to, or receipt by, National Westminster Bank PLC, New Issues Department of your application form;

(e) warrant that your remittance will be honoured on first presentation;

(f) agree that all applications, acceptances of applications and contracts resulting therefrom shall be governed by, and construed in accordance with, English law;

(g) warrant that, if you sign an application form on behalf of any other person or company, you have the authority to do so;

(h) agree that any letter of acceptance to which you may become entitled and any moneys returnable to you may be retained pending clearance of your remittance;

(i) warrant that you (and any principal of yours) have not issued, and will not issue, a depositary receipt (within the meaning of sections 69 and 94 of the Finance Act 1986) in respect of any of the Ordinary Shares for which you are applying, and that you (and any principal of yours) are not, and are not the nominee for, a person providing clearance services for the purposes of sections 70 and 96 of the Finance Act 1986 in respect of any of the Ordinary Shares for which you are applying;

(j) agree that, in respect of those Ordinary Shares for which your application has been received and is not rejected, acceptance of your application, subject to paragraph (4) above, shall be constituted, at the election of Kleinwort Benson, either by notification to The Stock Exchange of the basis of allocation (in which case acceptance shall be on that basis) or by the determination of the number of Ordinary Shares for which your application is accepted pursuant to arrangements between Kleinwort Benson and National Westminster Bank PLC;

(k) agree that the basis of allocation of Subscription Shares and Vendors' Shares will be determined by Kleinwort Benson in its absolute discretion (after consultation with the Company);

(l) authorise the Company to issue any Subscription Shares for which your application is accepted to Kleinwort Benson and appoint Kleinwort Benson to hold such shares as nominee for you or any person(s) in whose favour the entitlements to such shares may be renounced on the basis that registration will subsequently be effected only in accordance with the terms of letters of acceptance to be issued by Kleinwort Benson, and subject as aforesaid, authorise National Westminster Bank PLC, New Issues Department or Kleinwort Benson to do all things necessary to procure that your name(s) or the name(s) of any person(s) in whose favour the entitlement to any Subscription Shares shall have been renounced is/are placed on the register of members of the Company as the holder(s) of such shares and authorise any representative of National Westminster Bank PLC, New Issues Department or Kleinwort Benson to execute and deliver any form of transfer or other document required for such purpose;

(m) authorise National Westminster Bank PLC, New Issues Department or Kleinwort Benson to do all things necessary to procure that your name(s) or the name(s) of any person(s) in whose favour the entitlement to any Vendors' shares shall have been renounced is/are placed on the register of members of the Company as the holder(s) of such shares and authorise any representative of National Westminster Bank PLC, New Issues Department or Kleinwort Benson to execute and/or renounce any renounceable or other document of title required therefor;

(n) warrant, if Box 8 of the form of application is completed, that you are a charity or other category of persons falling within section 90(7) of the Finance Act 1986, or that you are applying in the ordinary course of your business as a market maker for the purposes of sections 89(1) and 89(3) of the Finance Act 1986 (or will be so before admission of the Ordinary Shares to the Official List of The Stock Exchange);

(o) warrant that you are not a U.S. person (which expression shall mean any person who is a national, citizen or resident of the United States of America, its possessions, territories and all areas subject to its jurisdiction, or any political sub-division thereof, including corporations, partnerships or other entities created or organised therein or any estate or trust that is subject to United States Federal Income Taxation) and are not applying on behalf of, or with a view to the re-offer, sale, renunciation or transfer of any Ordinary Shares to, or for the benefit of, any such person; and

(p) confirm that in making your application, you are not relying on any information or representation in relation to the Company or its subsidiaries or any of the Ordinary Shares not contained in the Listing Particulars and accordingly agree that neither Kleinwort Benson, the Vendors nor the Company nor any person responsible solely or jointly for the Listing Particulars or any part of them shall have any liability for any information or representation not so contained.

(7) No person receiving a copy of the Listing Particulars or an application form in any territory other than the United Kingdom may treat the same as constituting an invitation or offer to him, nor should he in any event use such form unless, in the relevant territory, such an invitation or offer could lawfully be made to him or such form could lawfully be used without contravention of any registration or other regulatory or legal requirements. Any person outside the United Kingdom wishing to make an application hereunder must satisfy himself as to full observance of the laws of any relevant territory in connection therewith, including the obtaining of requisite governmental and other consents, the observing of any other requisite formalities and the payment of any issue, transfer and other taxes due in such territory.

(8) The Ordinary Shares have not been, and will not be, registered under the United States Securities Act of 1933, as amended. Accordingly, the Ordinary Shares may not be offered, sold, renounced or transferred, directly or indirectly, in the United States or to, or for the benefit of, any U.S. person or to any person purchasing such shares for re-offer, sale, renunciation or transfer in the United States or to, or for the benefit of, any U.S. person as part of the distribution of such shares.

Availability of listing particulars and application forms

Copies of the listing particulars and the application form, which will be published in the Financial Times and The Daily Telegraph on 27th June 1988, can be obtained until the Offer closes from:

Kleinwort Benson Limited
20 Fenchurch Street
London EC3P 3DB

Phillips & Drew Securities Limited
120 Moorgate
London EC2M 6XP

Rockfort Group PLC
Hurst Grove
Hurst
Reading RG10 0SQ

National Westminster Bank PLC
New Issues Department
PO Box No 79
2 Princes Street
London EC2P 2BD

and from the following branches of National Westminster Bank PLC:

BIRMINGHAM
Colmore Centre
103 Colmore Row
Birmingham B3 3NS

BRISTOL
32 Corn Street
Bristol BS99 7UG

CARDIFF
117 St Mary Street
Cardiff CF1 1LG

LEEDS
8 Park Row
Leeds LS1 1QS

LIVERPOOL
22 Castle Street
Liverpool L69 2BE

LONDON
208 Piccadilly
London W1A 2DG

MANCHESTER
55 King Street
Manchester M60 2DB

NEWCASTLE-UPON-TYNE
24 Mosley Street
Newcastle-upon-Tyne
NE1 1YW

READING
13 Market Place
Reading RG1 2EP

EDINBURGH
80 George Street
Edinburgh EH2 3DZ

GLASGOW
14 Blythswood Square
Glasgow G2 4AQ

PROCEDURE FOR APPLICATION

1 **Insert in Box 1 (in figures) the number of Ordinary Shares for which you are applying.**
Applications must be for a minimum of 300 Ordinary Shares or in one of the following multiples:
— for more than 300, but not more than 1,000 shares, in a multiple of 100 shares
— for more than 1,000 shares, but not more than 5,000 shares, in a multiple of 500 shares
— for more than 5,000 shares, but not more than 10,000 shares, in a multiple of 1,000 shares
— for more than 10,000 shares, but not more than 50,000 shares, in a multiple of 5,000 shares
— for more than 50,000 shares, in a multiple of 10,000 shares

2 **Insert in Box 2 (in figures) the amount of your cheque or banker's draft.** The amount of your cheque or banker's draft should be 140p multiplied by the number of Ordinary Shares inserted in Box 1. For example:

Number of Ordinary Shares	Amount you must pay (£)
300	420
1,000	1,400
5,000	7,000
10,000	14,000
50,000	70,000

3 **Date and sign the application form in Box 3.** The application form may be signed by someone else on your behalf if duly authorised to do so.
Persons signing on behalf of applicants who are individuals must enclose the relevant power(s) of attorney (or a certified copy thereof) for inspection. A corporation should sign under the hand of a duly authorised official whose representative capacity must be stated.

4 **Insert your full name and address in BLOCK CAPITALS in Box 4.**
Applications may not be made by persons under the age of 18.

5 **You must pin a separate cheque or banker's draft to each completed application form. Your cheque or banker's draft must be made payable to National Westminster Bank PLC for the amount payable on application inserted in Box 2 and should be crossed "Not negotiable – Rockfort Offer".**
No receipt will be issued for this payment, which must be solely for this application.
Your cheque or banker's draft must be drawn in sterling on an account at a branch (which must be in the United Kingdom, the Channel Islands or the Isle of Man) of a bank which is either a member of the London or Scottish Clearing Houses or which has arranged for its cheques and banker's drafts to be presented for payment through the clearing facilities provided for members of those Clearing Houses, and must bear the appropriate sorting code number in the top right hand corner. Applications may be accompanied by a cheque drawn by someone other than the applicant(s), but any moneys to be returned will be sent by crossed cheque in favour of the person named in Box 4.

6 **You may apply jointly with other persons.** You must then arrange for the application form to be completed by or on behalf of each joint applicant (up to a maximum of three other persons.) Their full name(s) and address(es) should be inserted in BLOCK CAPITALS in Box 6. Letters of acceptance in the names of joint applicants will be sent to the applicant named in Box 4.

7 **Box 7 must be signed by or on behalf of each joint applicant (other than the first applicant who should complete Box 4 and sign in Box 3).**
Persons signing on behalf of applicants who are individuals must enclose the relevant power(s) of attorney (or a certified copy thereof) for inspection.

8 **Complete Box 8 only if you are a charity or applying in the ordinary course of your business as a market maker and you are able to give the warranty in paragraph (6)(n) of the accompanying terms and conditions.**

- **You must send the completed application form by post, or deliver it by hand, to National Westminster Bank PLC, New Issues Department, PO Box No. 79, 2 Princes Street, London EC2P 2BD, in each case so as to be received by not later than 10.00 a.m. on Monday, 4th July 1988.**
- **If you post your application form, you are recommended to use first class post and to allow at least two days for delivery.**
- **Photostat copies of application forms will not be accepted.**
- **Multiple or suspected multiple applications may be rejected in their entirety.**

BASIS OF ACCEPTANCE AND DEALING ARRANGEMENTS

Applications for Ordinary Shares must be received by 10 a.m. on 4th July 1988 and the application list will close as soon thereafter as Kleinwort Benson may determine.

The basis on which applications have been accepted will be announced as soon as possible after the application list closes. It is expected that letters of acceptance will be posted to successful applicants by not later than 8th July 1988 and that dealings in the Ordinary Shares will commence on 11th July 1988. Dealings prior to receipt of letters of acceptance will be at the risk of applicants. A person so dealing must recognise the risk that an application may not have been accepted to the extent anticipated or at all.

A total of up to 100,000 Ordinary Shares will be reserved in the first instance to meet preferential applications from full time employees of the Group at the close of business on 24th June 1988 (other than Directors). Each such employee may apply on a preferential basis for a minimum of 300 Ordinary Shares. To the extent that such employees make preferential applications for more than the number of Ordinary Shares available, such applications may be scaled down. Individual applications may be accepted in whole or in part, or scaled down, as the Directors may determine. Excess preferential applications will be treated as applications on public application forms.

Letters of acceptance will be renounceable until 3.00 p.m. on 5th August 1988. In cases of renunciation, letters of acceptance (duly completed in accordance with the instructions contained therein) must be lodged for registration by 3.00 p.m. on 5th August 1988. After this time an instrument of transfer must be used. Share certificates are expected to be despatched by first class post not later than 2nd September 1988.

The Commissioners of Inland Revenue have confirmed that they will accept notification and payment by Kleinwort Benson on behalf of the Vendors of any stamp duty reserve tax liability of applicants incurred on the acceptance of applications under the Offer for Vendors' Shares (as defined in the terms and conditions of application) as discharging any liability of such persons to notify and account for the tax under the Stamp Duty Reserve Tax Regulations 1986 (other than stamp duty reserve tax arising under section 93 (depositary receipts) or section 96 (clearance services) of the Finance Act 1986).

The Company and the Vendors have been advised that:

(i) where a person agrees with another for a consideration in money or money's worth to transfer rights represented by a letter of acceptance, that other person will generally be liable to stamp duty reserve tax at the rate of 50p per £100 (or part thereof) of the amount or value of the consideration;

(ii) the conveyance or transfer on sale of Ordinary Shares, otherwise than by delivery of a renounced letter of acceptance prior to registration of renunciations, will generally be subject to ad valorem stamp duty on the instrument of transfer at the rate of 50p per £100 (or part thereof) of the amount or value of the consideration; and

(iii) where an agreement to transfer Ordinary Shares is completed by a duly stamped instrument of transfer a charge to stamp duty reserve tax will not arise if certain conditions are satisfied.

Arrangements have been made for any stamp duty payable on the conveyance or transfer of Subscription Shares (as defined in the terms and conditions of application) pursuant to the Offer (other than stamp duty arising under section 67 (depositary receipts) or section 70 (clearance services) of the Finance Act 1986) to be borne by the Company. Successful applicants need take no action in relation to stamp duty or stamp duty reserve tax (save where any of sections 67, 70, 93 or 96 aforesaid applies) and purchasers of rights to Ordinary Shares represented by letters of acceptance who apply for registration by 3.00 p.m. on 5th August 1988 need take no action in relation to stamp duty (other than stamp duty arising under sections 67 or 70 aforesaid) although such persons may be liable to stamp duty reserve tax.

The above statements are intended as a general guide to the current position. Certain categories of person are not liable to stamp duty reserve tax, and others may be liable at higher rates or may, although not primarily liable for the tax, be required to notify and account for it under the Stamp Duty Reserve Tax Regulations 1986. Any person who is in doubt as to his position should consult his professional advisers.

When considering what action you should take, you are recommended to seek your own personal financial advice from your stockbroker, bank manager, solicitor, accountant or other professional adviser.

APPLICATION FORM

ROCKFORT GROUP PLC

(Incorporated in England and Wales, No. 1572900)

Offer for Sale by Kleinwort Benson Limited, as agents for the Company and the Vendors, of 17,642,330 Ordinary Shares of 20p each in Rockfort Group PLC at 140p per share, payable in full on application.

1 I/We offer to acquire ______ Ordinary Shares of 20p each in Rockfort Group PLC (or such smaller number of Ordinary Shares in respect of which this application may be accepted) at 140p per share on the terms and subject to the conditions set out in the Listing Particulars of the Company dated 24th June 1988 and subject to the Memorandum and Articles of Association of the Company

2 and I/we attach a cheque or banker's draft for the amount payable, namely £

3 Dated ______ 1988 Signature ______

PLEASE USE BLOCK CAPITALS

4 Forename(s) in full ______
Surname ______ (Mr., Mrs., Miss or title)
Address in full ______
______ Postcode ______

5 ☐ **Pin here your cheque or banker's draft for the amount inserted in Box 2, payable to National Westminster Bank PLC and crossed "Not Negotiable – Rockfort Offer"**

FOR OFFICIAL USE ONLY
1 Form No
2 Acceptance No
3 Shares allocated
4 Amount received £
5 Amount payable £
6 Amount returned £
7 Cheque No.
8 Shares/Registration

Complete this section only when there is more than one applicant. The first or sole applicant should complete Box 4 and date and sign Box 3. Insert below only the name(s) and address(es) of the second and subsequent joint applicants, each of whose signatures, or the signature of the person signing on their behalf, is required in Box 7.

PLEASE USE BLOCK CAPITALS

6

Forename(s) in full	Forename(s) in full	Forename(s) in full
Surname (Mr., Mrs., Miss or title)	Surname (Mr., Mrs., Miss or title)	Surname (Mr., Mrs., Miss or title)
Address in full	Address in full	Address in full
Postcode	Postcode	Postcode

7

Signature	Signature	Signature

Complete this section only if you are a charity or a market maker and are able to give the warranty in paragraph (6)(n) of the terms and conditions set out in Part VI of the Listing Particulars dated 24th June 1988.

8

Name of charitable body/Market Maker	Registered No. of charitable body